

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

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Senior Loan Officer Opinion Survey on Bank Lending Practices (FR 2018; OMB No. 7100-0058). This voluntary survey is conducted with a senior loan officer at each respondent bank, generally through a telephone interview, up to six times a year. A Reserve Bank officer with in-depth knowledge of bank lending practices usually administers the interview. The reporting panel consists of up to sixty large domestically chartered commercial banks, distributed across the twelve Federal Reserve Districts, and up to twenty-four large U.S. branches and agencies of foreign banks. The purpose of the survey is to provide qualitative information with respect to bank credit developments on current price and flow developments and evolving techniques and practices in the U.S. banking sector. Consequently, a significant portion of the questions in each survey consists of unique questions on topics of timely interest; therefore, a sample form is not included in this proposal.

Although the Federal Reserve has the authority to conduct the survey up to six times a year, the survey has typically been conducted only four times a year since 1992. The estimated annual burden, based on six surveys, is 1,008 hours. Consistent with the Senior Financial Officer Survey (FR 2023; OMB No. 7100-0223), a senior-level staff member may also conduct the telephone interview. Also consistent with the Senior Financial Officer Survey, there is the option to survey other types of respondents (such as other depository institutions, bank holding companies, or corporations) should the need arise.

The respondents' answers provide crucial information for monitoring and understanding the evolution of lending practices at banks and developments in credit markets. The survey methodology is essential in obtaining such information. A summary of the survey results is distributed throughout the Federal Reserve System, to respondents, and to interested members of the public. The summary is also available on the Board's public web site, and selected information from the surveys appears annually in a *Federal Reserve Bulletin* article.

Background

The Federal Reserve initiated a survey on bank lending practices in 1964. Until 1981, it was conducted quarterly at 120 respondent banks and consisted of twenty-two standard questions, seeking qualitative information with respect to changes in bank lending practices in the three months preceding the survey date. The survey's original questions dealt with perceived changes in business loan demand, willingness to make business loans, various non-rate aspects of business loan pricing, and willingness to extend consumer, mortgage, and certain other types of loans.

In 1981, the number of respondents was decreased by half, the number of core questions was reduced to six, and provision was made to include additional questions in each quarterly survey that would address currently important topics on bank lending practices. In 1984, the authorized frequency was increased from four to eight times a year, the remaining core questions were dropped, and the survey came to consist mainly of questions focusing on a particular topic or topics of current interest. In 1987, the Federal Reserve reduced the authorized frequency from eight to six times a year after determining that this would reduce the burden on respondents without compromising the Federal Reserve's ability to keep abreast of important banking developments.¹

The last major modification to the survey occurred in August 1990, when the respondent panel was enlarged to include eighteen of the largest U.S. branches and agencies of foreign banks. In November 1994, the Federal Reserve increased the number of foreign banks surveyed to twenty-four to make the foreign bank coverage as thorough as that for domestic banks and to rectify an under-representation of branches and agencies having European-based parent banks.

Justification

The survey results have been especially useful in enabling the Federal Reserve to keep abreast of complex banking developments that have evolved in recent years. The information obtained from the survey has provided valuable insight on credit market and banking developments and is therefore helpful in the formulation of monetary policy. The survey has also attracted considerable attention from the business press and is used in academic research on banking and macroeconomic activity. The results are also included in the Board's annual reports to Congress on "Credit Availability for Small Businesses and Small Farms," pursuant to Section 477 of the Federal Deposit Insurance Corporation Improvement Act of 1991.

In the last several years, the survey has continued to provide critical information about a number of important banking topics. The survey is an excellent source of information on conditions in the syndicated loan market, which was particularly hard-hit when the technology and telecommunications industries turned down in the middle of 2000. Several series of special questions addressed changes in the quality of banks' loan portfolios. The survey was also an important source of information about banks' lending to, and the credit quality of, subprime borrowers, a type of lending that expanded rapidly over the past three years and for which other sources of data are somewhat sparse. Questions addressing the pricing of residential and commercial real-estate loans have been asked annually since 1999.

¹The 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. It has been conducted four times every year since 1992, except 1998 and 2001, when the survey was conducted five times.

Description of Information Collection

As currently authorized, the survey contains no pre-established core questions. However, every quarterly survey since 1966 has asked banks about changes in their willingness to extend consumer installment credit. After the elimination of all core questions in 1984, the survey usually focused on a single topic, frequently related to current banking developments on which little information was available. During that period, the survey covered topics such as the market for interest rate swaps, the market for business loan sales and participations, business lending to middle market firms, the effects of tax reform on banking, and the impact of the 1987 stock market crash on bank credit.

Since May 1990, each survey has included a set of about twenty questions designed to measure changes in standards and terms on bank loans and perceived changes in the demand for bank credit. Additionally, these surveys have included questions about new developments in banking practices. Questions for the branches and agencies are tailored to omit material not relevant to their operations. For example, the continuing survey question on changes in willingness to lend to households is not included, because the branches and agencies make few, if any, consumer loans.

Description of Respondents

Domestically Chartered Commercial Banks. Since 1981, the Federal Reserve has tried to maintain a panel of sixty insured, domestically chartered commercial banks. To ensure adequate geographic coverage, the survey panel of domestic banks is distributed as evenly as possible across Federal Reserve Districts, while balancing the need to keep it heavily weighted toward very large banks. When respondents are not among the very largest banks in a District, it is generally because the larger banks are specialized (for example, credit card banks), or because they are part of a holding company already represented in another District.² 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 medium-sized and large regional banks, which allows for a greater diversity of responses and provides for a better idea of what the banking system is doing in general.

U.S. Branches and Agencies of Foreign Banks. In recognition of their growing importance as providers of bank credit, the Federal Reserve added eighteen U.S. branches and agencies of foreign banks to the panel in August 1990. The panel size was raised to twenty-four in November 1994, to increase the share of foreign C&I loans covered and to improve the panel representation in terms of country of foreign parent. Attrition has reduced the current panel to only twenty U.S. branches and agencies of foreign banks, concentrated in four Federal Reserve Districts.

²Nevertheless, some bank holding companies are represented by banks in more than one district. In such cases, efforts have been made to determine that their responses to survey questions are independent.

Optional Panel. The primary reporting panels of sixty large domestically chartered commercial banks and twenty-four U.S. branches and agencies of foreign banks have proved sufficient over the period since the last renewal of this survey and likely will continue to be appropriate for most survey topics. However, for some situations, panels based on alternative criteria may be more appropriate and efficient. Consequently, the Federal Reserve has the option to survey other types of respondents (such as other depository institutions, bank holding companies, or corporations). This option, which also exists for the FR 2023, enhances the potential scope and utility of the FR 2018.

Experience with Respondents

The survey questions are generally qualitative. They are drafted with the expectation that when directed by appropriate Reserve Bank personnel to individuals at respondent banks having familiarity with the subject at hand, they would elicit useful information without imposing an undue reporting burden. Experience has shown that only a small number of respondents decline answering any particular question and that response rates overall have provided adequate and informative answers to the questions asked.

To understand certain banking practices, however, the Federal Reserve occasionally needs to ask some quantitative questions. The Federal Reserve has sought to limit the difficulty and quantitative content of survey questions, insofar as an adequate understanding of the subject matter allows. When quantitative information is requested, respondents are asked to provide approximate or rough estimates, usually in terms of percentages rather than dollar amounts. In any case, a respondent's contribution to each survey can only be proportionate to its involvement and experience with the banking activity in question. Moreover, if a respondent declines to answer a particular question, because doing so would entail excessive research or a burdensome data review, it is entirely consistent with a spirit of cooperation with the survey.

Frequency

This voluntary survey is conducted up to six times a year by means of a telephone interview with a senior loan officer at each respondent bank. The Federal Reserve recommends no change in the frequency of this report.

Time Schedule for Information Collection and Publication

As noted earlier, survey responses are generally collected through telephone interviews that are conducted by Reserve Bank officers having in-depth knowledge of bank lending practices, with a senior loan officer at each respondent bank. As is the case with the Senior Financial Officer Survey, however, a senior-level staff member may also conduct the telephone interview. Typically, Reserve Banks supply the survey questions to respondents in advance of the telephone contact. Data are tabulated and summarized in a memorandum, the "Senior Loan Officer Opinion Survey on Bank Lending Practices," which is distributed within the Federal Reserve System, to respondents, and to other interested outside parties. The survey results also are

discussed in annual *Federal Reserve Bulletin* articles, for instance "Profits and Balance Sheet Developments at U.S. Commercial Banks in 1998," published in June 1999.

Legal Status

The Board's Legal Division has determined that the Senior Loan Officer Opinion Survey on Bank Lending Practices is authorized by law (12 U.S.C. §§248 (a), 324, 335, 3101, 3102, and 3105) and is voluntary. The individual bank information provided by each respondent is accorded confidential treatment under authority of exemption 4 of the Freedom of Information Act (5 U.S.C. §552 (b)(4)).

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Estimate of Respondent Burden

Respondent burden for this survey varies, depending on how many of the six authorized surveys are actually carried out and on the specific content of each questionnaire. Based on input from respondents and Reserve Banks as well as its own experience in conducting telephone interviews, the Federal Reserve estimates that, *on average*, a typical telephone interview takes about two hours of a respondent's time.³ Using the maximum annual frequency of six and the average two-hour response time, as shown in the table below, the annual reporting burden for the survey, with eighty-four respondents, is estimated to be 1,008 hours, less than 1 percent of total respondent burden for the Federal Reserve System.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 2018	84	6	2	1,008

Based on an hourly rate of \$50, the annual cost to the public is estimated to be \$50,400.

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

⁵Actual burden underlying the average 2-hour response rate varies considerably not only from survey to survey, depending on the number and nature of the questions, but also among respondents for any one survey.

The Federal Reserve's processing costs associated with this survey are nominal.