

**Supporting Statement for the  
Survey of Terms of Lending (OMB No. 7100-0061)  
Survey of Terms of Business Lending (FR 2028A)  
Survey of Terms of Bank Lending to Farmers (FR 2028B)  
Prime Rate Supplement to Survey of Terms of Lending (FR 2028S)**

**Summary**

The Board of Governors of the Federal Reserve System proposes to approve for three years, with revision, the quarterly Survey of Terms of Lending (STL; FR 2028; OMB No. 7100-0061). The STL provides unique information concerning both price and certain nonprice terms of loans made to businesses and farmers during the first full business week of the mid-month of each quarter (February, May, August, and November). The survey comprises three reporting forms: the FR 2028A, Survey of Terms of Business Lending, the FR 2028B, Survey of Terms of Bank Lending to Farmers, and the FR 2028S, Prime Rate Supplement to the Survey of Terms of Lending. The FR 2028A and B collect detailed data on individual loans made during the survey week; the FR 2028S collects prime interest rate for each day of the survey from both FR 2028A and FR 2028B respondents. Reporting is voluntary for all three surveys.

From these sample STL data, estimates of the terms of business loans and farm loans extended during the reporting week are constructed. The estimates for business loans are published in the quarterly E.2 release, "Survey of Terms of Business Lending," while estimates for farm loans are published in the quarterly E.15 release, "Agricultural Finance Databook."

Federal Reserve proposes to revise the FR 2028A by: 1) adding a field for the date on which the terms, including pricing, for loans made under formal commitment became effective, 2) reducing the number of base pricing rate options from five to one, 3) deleting the item indicating whether loans are callable, 4) modifying the format of the recalculation and maturity date items, and 5) making minor clarifications to the instructions. The Federal Reserve also proposes to revise the FR 2028B by modifying the format of the recalculation and maturity date items. The proposed revisions to reporting forms and instructions would be effective for the May 2003 survey week. No changes are proposed to the FR 2028S. The total estimated annual burden for all the reports is 8,095 hours. The Federal Reserve does not anticipate this to change as a result of the proposed revisions. Copies of the current and proposed reporting forms and instructions are attached.

**Background and Justification**

The Survey of Terms of Business Lending (FR 2028A) was designed to measure the cost of business borrowing from banks and to analyze developments in bank loan markets. It replaced the Quarterly Interest Rate Survey and portions of the Survey of Selected Interest Rates of the Committee on Interest and Dividends (CID survey). It was designed to provide more accurate and detailed information than these surveys on business loans, especially concerning maturity

and nonprice terms.<sup>1</sup> The Survey of Terms of Bank Lending to Farmers (FR 2028B) provides data on the cost and characteristics of farm borrowing from banks. It replaced the farm loan portion of the CID survey. In many areas of the nation, farm lending is the primary form of business lending by banks. The volume and terms of such lending are affected by, and in turn affect, developments and trends in the farm economy.

The STL provided for the first time a reliable statistical series on the cost of important segments of business and agricultural credit at banks that are representative of banking institutions nationwide. It is the Federal Reserve's only currently available source of data on bank loan pricing for individual loans of all sizes. Since its inception in February 1977, the STL has been revised periodically to accommodate changes in lending practices, as described below.

In 1997 the respondent panel for the Survey of Terms of Business Lending was expanded to include U.S. branches and agencies of foreign banks, interest rate adjustments and maturity items were added and redefined, and a risk-rating item was added. The same items and redefinitions were added to the Survey of Terms of Bank Lending to Farmers. In addition the prime rate supplement data, previously collected from respondents to the business loan survey, was collected from respondents to the farm loan survey as well.

### **Business Loan Survey (FR 2028A)**

As an ongoing source of timely information, the survey data are used to assess current conditions and to track developments in short-term business credit markets. The survey data have been highly useful for monitoring the changing role of the prime rate as a benchmark for business loan pricing and of shifts in the mix of fixed-rate and variable-rate lending as financial markets have changed. Beyond their use for current analysis, these data have been critical to a number of special studies.

STL data were used to analyze changes in loan pricing strategies from the late 1970s to the late 1980s; the results of this study were published in the leading article in the January 1988 *Federal Reserve Bulletin*, entitled "Developments in the U.S. Financial System since the Mid-1970s." The study showed that deregulation and competitive forces had increased the sensitivity of bank loan rates to changes in market rates, and that this was especially true at small and medium-sized banks.

In 1988, the Federal Reserve completed a study, entitled "Collateral, Loan Quality, and Bank Risk," using data from the STL and the Consolidated Reports of Condition and Income (formerly FFIEC 031-034; OMB No. 7100-0036). They used cross-section data incorporating information on individual loan characteristics and loan loss experience to estimate differences in risk premiums between secured and unsecured loans. The large and detailed database provided by this survey allowed the Federal Reserve to analyze differences in the nature of the lending contracts across individual loans and differences in risk across individual banks. As the study

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<sup>1</sup> Construction and land development loans were originally included in the STL, but were dropped from the survey in 1989.

notes, the prevailing view among academic researchers had been that secured loans were less risky and had lower rates than unsecured loans. This study used the STL to show that the reverse is in fact the case and thus contributed significantly to improving general understanding of bank lending practices.

Data from the STL provided the Federal Reserve with valuable information on loan pricing behavior during the slowdown of economic activity in 1990-91, which many observers attributed, at least in part, to restrictions in the supply of credit from banks. These loan data provided insights unavailable through any other existing sources, for example, that the elevation of lending rates was more pronounced and persistent on small and mid-sized loans than large loans. STL data have also been used in scholarly research into the 1990-91 slowdown and the monetary transmission mechanism in general.<sup>2</sup>

The Federal Reserve has used the STL data to study the likely effects of bank consolidation on bank lending patterns and to improve our understanding of bank lending practices near the century date change. The study of the effects of consolidation, published in the fall 1995 *Brookings Papers on Economic Activity*, used information on the volume and pricing of individual banks' loan extensions, as well as balance sheet information from Call Reports, to assess the likely effects of industry consolidation on the availability and pricing of small business loans. This study would not have been possible without the detailed information on individual loans available from the STL.

The STL provides the only information on marginal loan returns for all banks, important information for bank profits studies. For example, the results of the STL have generally been presented in the articles on bank profitability published annually in the *Federal Reserve Bulletin*. The STL provides valuable insights into shifts in banks' portfolios and their implications for bank income.

The STL is the sole source of individual loan data used by those concerned with lending to small businesses. The Small Business Administration (SBA) uses aggregate measures taken from the survey to inform national policy on bank lending to small businesses; banks are the primary source of credit to these companies. The SBA considers this information very valuable in analyzing trends in this sector and uses the information on loans by size in briefings for senior SBA officials. In addition, the SBA publishes aggregate STL data on small-business loans, as well as an analysis of these data, in various publications. Furthermore, interest rates calculated using data from the STL are published by the Federal Reserve each year in *Information on Depository Credit for Small Businesses and Small Farms*. This publication is part of the Federal Reserve's compliance with provisions of the Federal Deposit Insurance Corporation Improvement Act, which requires the Federal Reserve to collect and publish information on the availability of credit for small businesses and small farms.

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<sup>2</sup> See, for example, Benjamin M. Friedman and Kenneth N. Kuttner, "Economic Activity and the Short-term Credit Markets: An Analysis of Prices and Quantities," *Brookings Papers on Economic Activity*, 2: 1993; or Charles S. Morris and Gordon H. Sellon, Jr., "Bank Lending and Monetary Policy: Evidence on a Credit Channel," *Federal Reserve Bank of Kansas City*.

## **Farm Loan Survey (FR 2028B)**

This survey provides basic information that the Federal Reserve 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 STL provided a timely indicator of the possible effects of the drought on the terms of loans for various purposes.

The STL provides 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.

Data from the STL have been very useful in monitoring the ongoing adjustment of rural banks to the more volatile supply and demand for loan funds of recent years. In 1978, 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. At the same time, the agricultural sector, the underlying source of prosperity in many small communities, has seen large swings in farm income, asset values, and rates of resource utilization. Data from the STL on the level and distribution of loan maturities and loan rates among smaller banks provide a useful indicator of the degree to which these additional sources of risk have been passed through to rural borrowers.

The STL provides unique information on farm lending terms, and the availability of a historical series on farm lending 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 STL data provided a useful benchmark in a General Accounting Office study of the FCS performance in this regard (GAO-94-39, March 1994). The aggregate STL 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.

## **Prime Rate Supplement (FR 2028S)**

The prime rate remains the base rate banks use to price the vast majority of their loans. Even for large borrowers and the largest banks, the prime rate, an administered rate, is a pricing option frequently available along with market-related rates.

The Supplement is completed by banks that file either (or both) the FR 2028A (loans to businesses) or the FR 2028B (loans to farmers). 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. While the Supplement imposes little burden, 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. The Supplement is also collected from the fifty U.S. branches and agencies of foreign banks on the business loan survey.

The Prime Rate Supplement provides valuable information about variations in the prime-lending rate across banks, which can be considerable. The STL is the only national source of data on the prime rate at banks of all sizes.

### **Description of Information Collection**

The STL employs three reporting forms. The FR 2028A, Survey of Terms of Business Lending, collects loan information from a stratified sample of banking institutions on the face amount, the rate of interest (including the base pricing rate), the frequency of compounding, the date on which the loan rate can be recalculated (if any), the maturity status, the commitment status, whether the loan is secured, and the risk rating. The FR 2028B, Survey of Terms of Bank Lending to Farmers, collects much the same information from a stratified sample of banks and collects additional items on federal insurance status, security status, participation status and primary purpose. The FR 2028S, Prime Rate Supplement to the Survey of Terms of Lending, collects from both FR 2028A and FR 2028B respondents their prime lending rate on each day of the survey week. The reports are completed for the first full business week of the mid-month of each quarter (February, May, August, and November). Reporting is voluntary for all three surveys.

### **FR 2028A proposed revisions to item detail effective May 2003**

- Item 5(a) “Prime” would be renumbered as Item 5 and retitled as “Prime Rate used as Base pricing rate” with the option of a “yes” or “no” check box. Items 5(b) “Fed funds,” 5(c) “Other domestic money market,” 5(d) “Foreign money market,” and 5(e) “Other” under “Base pricing rate” would be deleted. The Federal Reserve has found, using the series it developed for estimated loan funding costs by maturity, that once loan maturity is taken into account, base pricing rates (other than the prime rate) provide little additional information on loan pricing.
- Item 6 “Next date on which the loan rate may be recalculated” would be modified from the YY/MM/DD to the YYYY/MM/DD format.
- Item 7 “Maturity date” would be modified from the YY/MM/DD to the YYYY/MM/DD format.
- Under “Termination options” Item 8(a) “Callable” would be deleted and Item 8(b) “Prepayment penalty” would be renumbered as Item 8. Only a small portion of the loans reported on the STL are designated as callable and analysis suggests that these loans do not differ appreciably from other loans with respect to other reported characteristics. Thus, this item provides limited information about the condition of loan markets

- New Item 11 “Commitment date” - This field would be used to report the date on which pricing terms on loans made under formal commitment became effective, in other words the date on which the loan commitment became legally binding. Because economic conditions may change between the time that a loan commitment is extended and the date the loan is drawn, the terms on the loan may not reflect current credit conditions. Knowing the date on which the commitment was extended has two benefits. First, it increases the ability of the Federal Reserve to assess current economic conditions by indicating which loans are based on the contemporary lending environment. Second, by observing how commitment terms have changed over time, the Federal Reserve will be better able to monitor credit market trends. Subsequent items would be renumbered.

The FR 2028A reporting instructions would be revised according to the proposed changes, with other minor clarifications.

### **FR 2028B proposed revisions to item detail effective May 2003**

- Item 5 “Next date on which the loan rate may be recalculated” would be modified from the YY/MM/DD to the YYYY/MM/DD format.
- Item 6 “Maturity date” would be modified from the YY/MM/DD to the YYYY/MM/DD format.

### **Time Schedule for Information Collection and Publication**

The STL is filed every quarter. Reserve Banks collect the data from respondents in their respective districts, edit the data, and transmit them to the Board for central processing. Data are transmitted from the Reserve Banks to the Board by the fourth Thursday following the Monday as-of date. The final report and statistical release tables are completed at the Board five weeks after the end of the survey period.

The Federal Reserve publishes aggregated data for business loans quarterly in a widely distributed statistical release, "Survey of Terms of Business Lending" (E.2); the tables contained in it summarize data from the FR 2028A and FR 2028S. These data also appear in the *Federal Reserve Bulletin* in a table titled "Terms of Lending at Commercial Banks" (4.23). Aggregate information on farm loans from the FR 2028B is published in the Federal Reserve's quarterly statistical release "Agricultural Finance Databook" (E.15). The survey results are also included in statistical compilations published both within and outside the Federal Reserve.

### **Legal Status**

The Board's Legal Division has determined that this survey is authorized by law [12 U.S.C. §248 (a) (2)] and is voluntary. Individual responses are exempt from disclosure pursuant to Sections (b)(4) and (b)(8) of the Freedom of Information Act (5 U.S.C. §552(b)(4) and (8)).

## Consultation Outside The Agency

During the first half of August 2002, the Federal Reserve conducted interviews with a large sample of banks to obtain feedback on the proposed changes to the FR 2028A form and instructions. The proposed changes were revised based on comments received from field test participants.

## Estimate of Respondent Burden

Fifty U.S. branches and agencies of foreign banks and 348 commercial banks make up the respondent panel for the FR 2028A. Some of the 250 commercial banks that file the FR 2028B also file the FR 2028A. The number of respondents that file the FR 2028S is less than the total number of FR 2028A and FR 2028B reporters because 81 banks that respond to both forms are required to file only one FR 2028S. The authorized panel size and estimated average hours per response will remain unchanged. The annual burden is estimated to be 8,095 hours, as shown in the table.

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	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 2028A:	398	4	4.0	6,368
FR 2028B:	250	4	1.5	1,500
FR 2028S:	567	4	0.1	227
Total:				8,095

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Based on an hourly rate of \$20 the costs to the public are estimated to be \$161,900.

## Estimated Cost to the Federal Reserve System

Current continuing annual costs of collecting and processing the data are estimated to be \$239,700 per year. The annual cost to the public for the proposed revisions is estimated to be minimal.

## Sensitive Questions

These reports contain no questions of a sensitive nature, as defined by OMB guidelines.