

**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), proposes to extend for three years, with revision, the Survey of Small Business and Farm Lending (SSBFL) (FR 2028; OMB No. 7100-0061). This information collection comprises of 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 (previously the Survey of Terms of Lending) collects unique information concerning price and certain nonprice terms of loans made to businesses and farmers each quarter (February, May, August, and November). 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 proposes to implement changes to the form and instructions of the FR 2028D. The proposed revisions consist of deleting and adding items, and modifying or clarifying instructions of existing data items. The Federal Reserve is proposing most of these changes in an effort to reduce reporting burden for firms, clarify the expectations around and the intent of reporting instructions and requirements, and to improve data quality. A limited number of proposed revisions would add items to increase clarity in quantitative loan data. No changes are proposed to the FR 2028B and FR 2028S.

The current estimated total annual burden for the FR 2028 is 3,888 hours, and would increase to 6,276 hours. While changes to the FR 2028D would result in significant burden reduction, the initial estimate of 1.5 hours per response calculated in 2017 was understated by approximately 4.5 hours. Consequently, the proposed revisions would result in an increase of 2,388 hours. The draft form and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

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.

The FR 2028A, which is now inactive, was designed to allow the Federal Reserve to measure the cost of nonfarm business borrowing from banks and to assess conditions and analyze developments in nonfarm business credit 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 on nonfarm business loans, especially concerning maturity and nonprice terms, than the previous surveys. Limitations in the FR 2028A data for assessing conditions and analyzing developments in nonfarm business credit markets precipitated a study of alternative small business loan data sources. The primary finding of the study indicated that no existing data collection met policy needs for understanding and addressing policy issues and questions. The FR 2028A was discontinued in 2017 with the final collection occurring in the May survey week.

The FR 2028B also has undergone several modifications in recent years. In 1997, interest rate adjustments and maturity items were added and redefined, and a risk-rating item was added to the collection. In addition, the prime rate supplement data (FR 2028S), which previously had been collected just from respondents to the FR 2028A, were collected from FR 2028B respondents. In 2006, the minimum size of loans reported was increased to \$3,000 from \$1,000, a level at which it had been held since the SSBFL's inception in 1977. The adjustment reflected price inflation over the intervening period and the increased use of business credit cards, developments that likely had added significantly to the burden of reporting small loan amounts. In August 2012, the FR 2028B added an item to collect the state where the borrower is headquartered.

In July 2017, the FR 2028D data collection was approved by the Board to address gaps in surveys on small business lending with the first survey period as of December 31, 2017. The FR 2028D is a quarterly collection of quantitative and qualitative information used to understand credit market conditions for bank lending to small businesses. The survey captures detailed, comprehensive information that is not otherwise available about small business lending and how it changes from quarter to quarter.

Description of Information Collection

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

This survey collects 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 SSBFL provided a timely indicator of the possible effects of the drought on the terms of loans for various purposes. More recently, the SSBFL 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.

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 the Congress, other government agencies, the media, and academics.

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 of 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 FR 2028B collects unique information on lending terms for farm borrowers, 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 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 is completed by banks that file 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. 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 banks in providing loans to small businesses and on small business access to credit in local communities. The survey is timed to make reports on developments in small business lending available for the second FOMC 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. The survey collects unique, quarterly quantitative and qualitative information on nonfarm small business lending that improves upon the information previously collected by the FR 2028A. The quantitative information is similar to the data in the FR 2028A, but the FR 2028D collects quarterly amounts or average levels of the data items as opposed to individual loan information from a survey week. As a result, the quantitative information is less costly to report and less impacted by idiosyncratic events. The qualitative questions provide information on changes in loan demand, credit standards and terms, and credit quality of applicants and

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, "[T]he 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."

reasons for the changes. Information on the reasons for denying a small business loan application are also collected.

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 collects quantitative and qualitative 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.

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 would be improved by combining the FR 2028D data collection on the terms of small business loans with the existing reports on large business loans.

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 include institutions of all sizes. Therefore, there is not much overlap in the panels for the two data collections.

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 202 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 202, the standard errors for the data items would increase 11 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.

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

| District | Number of Small FR 2028B and FR 2028S Respondents⁵ | Number of Large FR 2028B and FR 2028S Respondents⁶ |
|-----------------|--|--|
| 1 | 0 | 0 |
| 2 | 0 | 2 |
| 3 | 0 | 3 |
| 4 | 16 | 13 |
| 5 | 4 | 2 |
| 6 | 4 | 5 |
| 7 | 29 | 4 |
| 8 | 22 | 6 |
| 9 | 13 | 3 |
| 10 | 38 | 10 |
| 11 | 11 | 9 |
| 12 | 3 | 5 |
| TOTAL | 140 | 62 |

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.

⁵ Institutions with total consolidated assets less than \$600 million.

⁶ Institutions with total consolidated assets of \$600 million or more.

The number of respondents is less than the authorized panel size due primarily to the voluntary nature of the report, its current reporting burden, and because it is a relatively new survey. Revisions to the FR 2028D will decrease current burden and make it easier to recruit and retain additional respondents. If the authorized size of the panel is reduced to 126, the standard errors for the data items would increase 77 percentage points.

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 | 7 |
| 3 | 0 | 3 |
| 4 | 1 | 12 |
| 5 | 3 | 8 |
| 6 | 3 | 9 |
| 7 | 9 | 11 |
| 8 | 2 | 4 |
| 9 | 3 | 2 |
| 10 | 10 | 8 |
| 11 | 3 | 9 |
| 12 | 1 | 13 |
| TOTAL | 35 | 91 |

Proposed Revisions to the FR 2028D

The Federal Reserve proposes to implement revisions to the FR 2028D reporting requirements, forms and instructions, to be effective with the reports as of August 1, 2020. Most of the revisions are proposed to minimize burden on respondents. These changes include removing items related to base lending rates, secured loans and loan guarantees. Additionally, questions related to low and moderate income (LMI) tracts have been removed from the survey as have two qualitative questions ranking the relative weight of certain survey responses. A question related to credit card loans has been added to the survey for those respondents with an asset size of greater than \$10 billion. Changes to the instructions are clarifying in nature or address changes to the form. One change broadens the definition of small business lending to allow institutions that do not track borrowers' organization revenue to participate in the survey. Additionally, revisions have been made to the Frequently Asked Questions section to increase clarity of form definitions.

⁷ Institutions with total consolidated assets less than \$600 million.

⁸ Institutions with total consolidated assets of \$600 million or more.

Small Business Lending Survey Form Deletions

Questions determined to provide lower value, in comparison to the burden imposed on respondents required to track and respond, would be removed from the survey. Survey questions related to weighted average base rates and the number and dollar amount of secured would be removed, eliminating 12 questions each for fixed rate and variable rate small business commercial and industrial (C&I) loans. Questions related to loan guarantees, including those referencing Small Business Administration loans, would also be removed, a reduction of 22 questions for fixed rate loans and 16 questions for variable rate loans. Four questions each were removed for fixed rate and variable rate loans regarding number of loans at the interest rate floor, and five questions related to LMI tracts for Community Reinvestment Act purposes would be removed. Finally, two questions ranking the relative weight of certain survey responses would be eliminated.

Small Business Lending Survey Form Additions

For institutions with an asset size greater than \$10 billion, questions related to credit card lending would be added to the survey. These six questions each for fixed and variable rate lending would be added for the purpose of improving clarity in small business C&I lending and to identify situations where interest rates on credit card loans may skew data on weighted average interest rates. Additionally, an option to choose secured overnight financing rate (SOFR) as an institution's base rate for C&I small business lending would be added to questions 1 and 2 of the survey.

Survey Period

The Federal Reserve proposes a change to begin the transmission period two weeks earlier to extend the transmission time for respondents to 28 calendar days, allowing additional time for reporters to prepare and transmit data.

Time Schedule for Information Collection

The FR 2028B and FR 2028S are filed every mid-quarter as of February, May, August, and November. The FR 2028D transmission period begins two weeks prior to the first business day of the second month of each quarter (February, May, August, and November) and concludes 28 calendar days later.

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/indicatorsdata>. Aggregate information on farm loans from the FR 2028B is also published in the quarterly statistical release, *Agricultural Finance Databook*, <https://www.kansascityfed.org/research/indicatorsdata/agcreditsurvey>. The 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/research/indicatorsdata/smallbusinesslendingsurvey>, 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. The FR 2028 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. The Board will consider whether information collected through these surveys may be kept confidential under exemption 4 for the Freedom of Information Act (FOIA), which protects privileged or confidential commercial or financial information (5 U.S.C. § 552(b)(4)), or any other applicable FOIA exemption.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On March 2, 2020, the Board published an initial notice in the *Federal Register* (85 FR 12298) requesting public comment for 60 days on the extension, with revision, of the FR 2028. The comment period for this notice expires on May 1, 2020.

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 2028 reports is 3,888 hours and would increase to 6,276 hours with the proposed revisions. Based on initial feedback received from senior officers at the six banks that provided comments on the FR 2028D survey instrument in 2017, the estimated average hours per response for the proposed FR 2028D was calculated at 1.5 hours. However, feedback from respondents after the implementation of the survey indicated that the average hours per response was 6 hours. The estimated burden for the revised FR 2028D survey is 3 hours. As a result, the net reporting burden would increase 2,388 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>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 | 1.5 | <u>2,388</u> |
| | <i>Total</i> | | | <u>3,888</u> |
| Proposed | | | | |
| 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>Total</i> | | | <u>6,276</u> |
| | <i>Change</i> | | | <u>2,388</u> |

Based on the proposed revisions, the total cost to the public is estimated to increase from \$223,949 to \$361,498 for the FR 2028 survey.¹⁰

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The estimated proposed cost to the Federal Reserve System for collecting and processing the FR 2028 is \$311,960 per year, a decrease of \$2,820 from the current cost of \$312,920. The estimated one-time cost to revised the report is to be \$17,500.

⁹ Of the actual respondents, 140 for the FR 2028B and FR 2028S; and 35 for the FR 2028D are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 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 \$19, 45% Financial Managers at \$71, 15% Lawyers at \$69, and 10% Chief Executives at \$96). 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 2018*, published March 29, 2019, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Occupational Classification System, <https://www.bls.gov/soc/>.