

**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, with revision, the Senior Loan Officer Opinion Survey on Bank Lending Practices (FR 2018; OMB No. 7100-0058). A senior loan officer at each respondent bank completes this voluntary survey through an electronic submission, up to six times a year. Consistent with the Senior Financial Officer Survey (FR 2023; OMB No. 7100-0223), senior staff at the Reserve Banks with knowledge of bank lending practices usually administers the survey. The current reporting panel consists of up to 60 large domestically chartered commercial banks and up to 24 large U.S. branches and agencies of foreign banks. The purpose of the survey is to provide qualitative and limited quantitative information on credit availability and demand, as well as on evolving developments and lending practices in the U.S. loan markets. A portion of the questions in each survey typically covers special 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. Consistent with the FR 2023, other types of respondents, such as other depository institutions, bank holding companies, or other financial entities, may be surveyed, if appropriate.

The respondents' answers provide information that is critical to the Federal Reserve's monitoring of bank lending practices and credit markets. The Federal Reserve relies on the regular opportunity to solicit information from banks within the framework of the survey. Survey results from 1997 to present are available to the public on the Federal Reserve Board's website.¹

Given the recent need for additional information and analysis on commercial real estate and small business lending that is less concentrated among the largest banks; the Federal Reserve proposes to increase the reporting panel by 20 domestically chartered commercial banks with total assets between \$2 and \$10 billion to gain a greater variety of opinions on lending conditions in those markets. The proposed revisions to the FR 2018 would change the estimated annual reporting burden from 1,008 hours to 1,248 hours, an increase of 240 hours.

¹ <http://www.federalreserve.gov/boarddocs/SnLoanSurvey/>

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 22 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 a provision was made to include additional questions in each survey that would address current topics on bank lending practices. In 1984, the authorized frequency was increased from four to eight times a year, most of the remaining core questions were dropped, and the survey came to consist mainly of questions focusing on one or more topics of current interest. For example, banks were queried about the market for interest rate swaps, the market for business loan sales and participations, business lending to middle market firms, and the effects of tax changes on bank lending. 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.²

The last major modification to the survey occurred in August 1990, when the respondent panel was enlarged to include 18 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 24 to make the foreign bank coverage more thorough and to rectify an under-representation of branches and agencies of European banks.

Justification

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 of Governors and to the Federal Open Market Committee as an appendix to the Tealbook and in other internal briefing materials. This information has been particularly valuable in recent years as it has provided the Federal Reserve with insight into the effects of the financial crisis on the availability of credit to households and businesses. The survey has also attracted considerable attention from the business press and is used in academic research on banking and macroeconomic activity.³ Aggregate survey responses have been used to study the potential effects of the more stringent international capital

² 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 and 2001, in which the survey was conducted five times.

³ Examples of academic research include William F. Bassett III, Mary Beth Chosak, John C. Driscoll, and Egon Zakrajsek (2010). "Changes in Bank Lending Standards and the Macroeconomy," SSRN. (http://ssrn.com/abstract_id=1758832). Jose M. Berrospide and Rochelle M. Edge (2010). "The Effects of Bank Capital on Lending: What Do We Know, and What Does it Mean?" Finance and Economics Discussion Series 2010-44. Washington: Board of Governors of the Federal Reserve System, September.

requirements commonly referred to as Basel III.⁴ The results are also included in the Federal Reserve 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.

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: changes in banks' lending policies to banks and nonfinancial firms with significant exposure to the euro area, banks' involvement in the syndicated loan market, and banks' expectations about changes in asset quality and credit standards over the coming year. Regarding consumer lending, the survey has provided valuable information on timely topics including the securitization of mortgage loans, credit card lending, student loans, and home equity lines of credit.

Description of Information Collection

The questions on the FR 2018 survey are generally qualitative. They are drafted with the intent to elicit useful information without imposing undue reporting burden. To understand certain banking practices, however, the Federal Reserve occasionally needs to ask 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 generally are asked to provide approximate or rough estimates, usually in terms of percentages rather than dollar amounts. 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 related to business lines in which their bank is active. Response rates overall have been high and resulted in adequate and informative answers.

Since May 1990, the survey has included approximately 20 questions designed to measure changes in credit standards and terms on bank loans and perceived changes in the demand for bank credit. The survey has also normally included a number of special questions about developments in banking practices. The Federal Reserve distributes two versions of the survey, one to domestically chartered institutions and one to U.S. branches and agencies of foreign banks. The survey tailored to the branches and agencies of foreign banks contains fewer questions. Specifically, it omits both the recurring and the special questions on residential mortgage and consumer lending because the branches and agencies typically make few, if any, loans to households.

⁴Examples 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, August. Angela Maddaloni and Jose-Luis Peydro (2010). "Bank Risk-Taking, Securitization, Supervision, and Low Interest Rates: Evidence from Lending Standards," SSRN. (http://ssrn.com/abstract_id=1571697).

Reporting Panel

Domestically Chartered Commercial Banks. Since 1981, the Federal Reserve has 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 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 September 30, 2011, the current panel of domestic respondents contained 55 banks, 34 of which had assets of \$20 billion or more. The assets of the panel banks totaled \$7.5 trillion and accounted for about 69 percent of the \$10.9 trillion in total assets at domestically chartered institutions.

Selection Criteria for the Domestic Bank Panel. In selecting the panel, the Federal Reserve generally imposes three types of constraints. The first is size: the Federal Reserve has been eliminating banks having less than \$3 billion in assets or for which commercial and industrial (C&I) loans are less than 5 percent of total assets, with few exceptions.⁵ The second is geographic diversity: the Federal Reserve typically has been including banks in each District. The third is mutual independence: with some exceptions, the Federal Reserve eliminates a bank 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 current panel includes 22 institutions. In September 2008, the share of C&I loans held by respondent U.S. branches and agencies of foreign banks (\$184.8 billion) relative to the universe of foreign branches and agencies (\$323.5 billion) equaled roughly 57 percent. In September 2011, the share of C&I loans held by respondent U.S. branches and agencies of foreign banks (\$132.5 billion) relative to the universe of foreign branches and agencies (\$241.7 billion) fell to 55 percent. 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 location of the parent bank as well as size.

Optional Panel. The panels of large domestically chartered commercial banks and 24 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,

⁵ As of September 30, 2011, three banks had C&I loans that were less than 5 percent of total assets.

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.

or other financial entities) in addition to the current panel. For example, it may be useful to survey institutional 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 Federal Reserve Board staff, as appropriate.

Proposed Revisions

The Federal Reserve proposes to: (1) reduce the minimum asset size for panel institutions from \$3 billion to \$2 billion and (2) add 20 domestically chartered commercial banks with \$2 to \$10 billion in total assets to the current reporting panel. The Federal Reserve believes that the addition to the panel would provide 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.

Expanding the panel by 20 banks with assets of \$2 to \$10 billion will improve the robustness of the survey results for regional and community banks as a result of the diversification of the sample. Therefore, the survey will provide more insight on regional banking practices and how developments in the economy are affecting smaller banks. The increased coverage is especially important for assessing C&I lending to smaller firms and commercial real estate lending, two areas of intense discussion among the public and policymakers in recent years.

By increasing the panel by 20 banks with assets of \$2 to \$10 billion, the overall share of C&I loans at surveyed institutions that were made in original amounts smaller than \$1 million (“Small C&I”) would increase by 1.3 percentage points, which represents a 33 percent increase in coverage outside of the largest banks (those with more than \$20 billion in assets). Likewise, overall coverage of commercial real estate would increase by 1.6 percentage points, an increase in coverage outside of the largest banks of 37 percent.

Frequency

This voluntary survey is conducted up to six times a year and the Federal Reserve recommends no change in the frequency of this survey.

Time Schedule for Information Collection and Publication

The survey is generally completed through an electronic submission. Reserve Banks e-mail the survey questions to a senior loan officer at each respondent bank. 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 the semiannual *Monetary Policy Report* to Congress.

Legal Status

The Federal Reserve Board's Legal Division has determined that the Senior Loan Officer Opinion Survey on Bank Lending Practices is authorized by Sections 2A, 12A and 11 of the Federal Reserve Act (12 U.S.C. §§ 225a, 248(a) and 12 U.S.C. §263)) and Section 7 of the International Banking Act (12 U.S.C. 3105(c)(2)) 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)).

Estimate of Respondent Burden

The current annual burden for the FR 2018 is estimated to be 1,008 hours annually, as shown in the following table. Based on the proposed revision to add 20 domestically chartered commercial banks with \$2 to \$10 billion in total assets to the current reporting panel, the total annual burden would increase from 1,008 hours to 1,248 hours. Actual 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 approximately two hours of a respondent's time.⁷ The FR 2018 survey represents less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated Annual burden hours</i>
Current	84	6	2	1,008
Proposed	104	6	2	<u>1,248</u>
<i>Change</i>	+20			+240

The total cost to the public is estimated to increase from the current level of \$40,522 to \$50,170 for the revised FR 2018.⁸

Estimate of Cost to the Federal Reserve System

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

⁷ Actual burden underlying the average two-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.

⁸ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate ((30% Office & Administrative Support @ \$16, 60% Financial Managers @ \$50, and 10% Legal Counsel @ \$54). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2010, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/

Consultation Outside the Agency

On February 6, 2012, the Federal Reserve published a notice in the *Federal Register* (77 FR 5802) requesting public comment for 60 days on the extension, with revision, of the FR 2018. The comment period for this notice expires on April 6, 2012.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.