

**Supporting Statement for the
Domestic Finance Company Report of
Consolidated Assets and Liabilities
(FR 2248; OMB No. 7100-0005)**

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 Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005). The FR 2248 is a voluntary report, collected monthly as of the last calendar day of the month from a stratified sample of finance companies. Each monthly report collects balance sheet data on major categories of consumer and business credit receivables and on major short-term liabilities. For quarter-end months (March, June, September, and December) additional asset and liability items are collected to provide a full balance sheet. A supplemental section collects data on securitized assets. The Federal Reserve may ask either quantitative or qualitative questions through the use of a special addendum section no more than twice per year.

The data are used to construct universe estimates of finance company holdings, which are published in the monthly statistical releases Finance Companies (G.20) and Consumer Credit (G.19), in the quarterly statistical release Flow of Funds Accounts of the United States (Z.1), and in the *Federal Reserve Bulletin* (Tables 1.51, 1.52, and 1.55).

The Federal Reserve proposes to revise the FR 2248 reporting form by: (1) revising the reporting frequency for the breakout of 1-4 family real estate loans from quarterly to monthly; (2) adding data items in the liability and equity capital section of the report; (3) reordering the asset and liability data items from most liquid to least liquid; (4) adding two columns to create a clearer distinction among broad balance sheet data items, which are collected quarterly, detailed loan and lease data items, which are collected monthly, and the off-balance-sheet securitization data items; and (5) deleting the supplemental data items on the sale of receivables. The proposed revisions to the FR 2248 would be consistent with the proposed changes to the survey used to benchmark these data—the Survey of Finance Companies (FR 3033s; OMB No. 7100-0277). The proposed changes to the FR 2248 would be effective with the December 31, 2010, report date. The total estimated annual reporting burden for the FR 2248 would increase by 33 hours, from 317 to 350 hours.

Background and Justification

Since the mid 1940s, the Federal Reserve has collected consumer credit data from finance companies on a regular basis. In 1955, the Federal Reserve conducted its first universe survey of finance companies, including business finance companies. In that survey, information was collected on major assets and liabilities, with an emphasis on receivables. Using data from that first universe survey, the Federal Reserve developed a monthly sample survey. Two sample panels were drawn from companies reporting in that universe survey, one representing consumer finance companies (which mainly provided small cash loans to individuals) and the other representing sales finance companies (which mainly purchased credit contracts generated in the

sale of durable consumer goods). Companies in each sample panel were asked to supply the Federal Reserve with monthly data on their major consumer credit receivables.

To benchmark the monthly sample series, the Federal Reserve continued to conduct the universe finance company survey at five-year intervals. In 1980, this benchmark survey was changed from a universe to a sample survey.

In 1970, the Federal Reserve abandoned the distinction between consumer and sales finance companies, owing to widespread diversification within the finance company industry. At that time, a single new reporting form was introduced to cover all major types of lending (consumer, sales, and business financing). Since 1970, other changes have been made to the reporting form in order to capture information on new types of activities in which finance companies were engaging as well as to eliminate data items no longer needed by the Federal Reserve. Major changes made in 1987 include the elimination of extensions data and the addition of the supplement on securitized assets.

In 2002, the survey was modified in three ways. First, the authorized panel size was reduced to 80 finance companies because the number of finance companies responding to the survey had declined, owing to industry consolidation and attrition. Second, four questions on the breakdown of real estate loans for one- to four-family structures were added in order to improve flow of funds estimates of such loans. Third, a special addendum section was added, which may be used if the need arises for timely information on questions of immediate concern to the Board. In 2005, the definition of finance company was revised to include companies whose real estate loans made up 50 percent or more of their assets; this change effectively brought mortgage companies onto the panel. This definition of a finance company includes finance company subsidiaries of a bank holding company (BHC) or a foreign banking organization (FBO).¹

In 2008, the reporting form was revised to split data item 6, All other assets and accounts and notes receivable, into three separate data items. This revision enhanced the Federal Reserve's estimate of the finance company balance sheet currently published in the Federal Reserve System's Flow of Funds accounts. In addition, the authorized panel size was reduced to 70 companies because the number of finance companies responding to the survey had declined, owing to industry consolidation and attrition.

At the end of 2009, finance companies represented the second largest provider of consumer credit, owning 20 percent of all consumer credit and managing an additional 5 percent of consumer credit in the form of securitized pools. A large portion of personal consumption expenditures on durable goods is accrued with the use of credit, as are increasing portions of nondurable consumption goods and consumption services. Because personal consumption expenditures contribute importantly to the level of U.S. gross domestic product (GDP) and to

¹ Although the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11/FR Y-11S; OMB No. 7100-0244) and the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7/FR Y-7NS; OMB No. 7100-0125) collect balance sheet and income statement information from BHCs and FBOs, these reports do not provide the level of granularity necessary to produce detailed series on consumer, real estate, and business credit at finance companies.

quarter-to-quarter fluctuations in the growth rate of GDP, the Federal Reserve has a need to monitor consumer credit as it makes decisions about monetary policy.

Finance companies also provide a significant share of short- and medium-term credit to businesses. Business investment, both for fixed capital and inventory, is one of the more cyclically sensitive components of GDP. Because of the significant effect monetary policy can have on business investment, in part via the availability of credit, monitoring the sources of funding to businesses is important for the conduct of monetary policy. Currently, there is no other information collection for domestic finance companies in place that supplies the monthly data obtained on the FR 2248.

Description of Information Collection

The FR 2248 collects information on amounts outstanding in major categories of consumer and business credit held by finance companies and on major short-term liabilities of the finance companies. For quarter-end months (March, June, September, and December) the report also collects information on other assets and liabilities outstanding as well as information on capital accounts in order to provide a full balance sheet. In addition, a supplemental section collects data about assets that have been pooled by finance companies and sold to third parties that issue securities based on those assets. The supplemental section is organized in the same four categories of credit (consumer, real estate, business, and lease-related). The special addendum section may be used if the need arises for the collection of timely information on questions of immediate concern to the Federal Reserve.

Proposed Revisions

The Federal Reserve proposes to revise the FR 2248 reporting form in order to be consistent with typical balance sheet presentations and improve the ability of the Federal Reserve to analyze consumer credit outstanding held by finance companies in order to make informed policy decisions. In addition, this would align with the survey used to benchmark these data—the FR 3033s.

General changes to the Balance Sheet and Off-Balance-Sheet Securitizations:

- Reorder asset and liability data items from most liquid to least liquid to make the proposed survey consistent with the order of typical balance sheet presentations. (See Attachment 1, Data Item Mapping.)
- Align the supplemental data items (off-balance-sheet securitizations) to parallel the column for balance sheet data items. The definitions for the data items in both columns are essentially the same.
- Retitle column Amount Outstanding End of Month as Loan and Lease Activity and add a column for broad balance sheet data items. Consistent with the FR 3033s proposal, the Federal Reserve proposes to add a column for quarterly reporting of balance sheet items that includes data items and subtotals that customarily appear on standard balance sheets of financial institutions. Also, several of the data items in this column can be derived from other data items. The Federal Reserve plans to automate the reporting of FR 2248

data in the near future. At that point, several of the data items will be derived by the software rather than reported by the respondent.

- Clarify various data items with brief descriptive captions.

Specific changes to the Balance Sheet:

Assets

- Report all capital leases for consumers and businesses separately. Also, report all operating leases for consumers and businesses separately. Capital and operating leases differ both in their risk and return to the finance company as well as their accounting treatment.
- Increase the reporting frequency of 1-4 family real estate loans from quarterly to monthly. The proposed change would assist in monitoring the ongoing turmoil in the mortgage lending market.
- Delete current data item 2.A. 1-4 family real estate loans.
- Renumber, retitle, and redefine data item 3.C. Other business receivables as 3.C (3). Other business loans, to exclude other business capital leases.
- Add data item 3.D (1)(b). Consumer capital leases, non-motor -vehicle leases, under the capital lease category. This change would be consistent with the treatment of business capital leases on a company's financial statement.
- Add data item 3.D (2)(c). Business capital leases, other business leases, under the capital lease category. This change would be consistent with the treatment of business loans on a company's financial statement.
- Add data item 3.F. Net loans and capital leases (sum of on-balance-sheet data items 3.A(1)(a) through 3.D (2)(c) minus data items 3.E (1) and 3.E (2)).
- Add data item 4.B (3). Other business leases, under the operating lease category. This change would be consistent with the treatment of business loans on a company's financial statement.
- Add data item 4.C. Total operating leases (sum of on-balance-sheet data items 4.A(1) through 4.B(3)).
- Renumber, retitle, and redefine data item 6.C. All other assets as data item 5. All other assets and accounts and notes receivable.
- Delete current data item 6. Other assets and accounts and notes receivable.

Liabilities and Equity Capital

- Add data item 7.C. Non-recourse debt associated with financing activities. This debt basically reflects on-balance-sheet securitizations. Changes in accounting rules that took effect on January 1, 2010, have resulted in a large increase in the assets and liabilities of some finance companies as securitization structures are brought onto the balance sheet.² These data are currently reported in all other liabilities.
- Renumber and retitle data item 4. Debt not elsewhere classified, as 7.D. Notes, bonds, and debentures.
- Add data item 7.G. Total liabilities (sum data items 7.A through 7.F).

² Financial Accounting Statements No. 166 *Accounting for Transfers of Financial Assets*, and No. 167, *Amendments to FASB Interpretation no 46(R)*, issued June 12, 2009.

- Add two data items: 8.A. Retained earnings and common stock and 8.B. Preferred stock and other capital investments. The financial crisis has shown that core capital is essential to maintain market confidence and ultimately to a company's viability. This information would also be useful for monitoring health of the industry.
- Renumber and retitle data item 6. Capital, surplus, and data item undivided profits as 8.C. Total equity capital.

Specific changes to the Off-Balance-Sheet Securitizations data items:

Supplemental Items (report monthly)

- Delete data item 1. Sales of receivables during month to: (check all that apply). This information is no longer used to generate the *Flow of Funds Accounts of the United States (Z. 1)* release.
- Add data item 3.D (1)(b). Consumer capital leases, non motor-vehicle leases, under the capital lease category. This change would be consistent with the treatment of business capital leases on a company's financial statement.
- Add data item 3.D (2)(c). Business capital leases, other business leases under the capital lease category. This change would be consistent with the treatment of business loans on a company's financial statement.
- Add data item 4.B (3). Operating leases, other business leases under the operating lease category. This change would be consistent with the treatment of business loans on a company's financial statement.

Reporting Panel

The current FR 2248 authorized panel size is 70 finance companies. The reporting panel for the FR 2248 will be drawn from the sample of finance companies that respond to the Census of Finance Companies (FR 3033p; OMB No. 7100-0277).

Frequency

The Federal Reserve will retain the monthly frequency, with some data items continuing to be reported only for the quarter-end months.

Consultation Outside the Agency

On September 13, 2010, the Federal Reserve published a notice in the *Federal Register* (75 FR 55579) requesting public comment for 60 days on the extension, with revision, of this information collection. The comment period for this notice expires on November 12, 2010.

Time Schedule for Information Collection and Publication

There are currently 40 FR 2248 reporters: 30 respondents submit their FR 2248 data monthly to the Federal Reserve Banks and 10 respondents file directly with the Federal Reserve Board on a monthly basis. Respondents submit quarterly data for quarter-end months only. To help ease the reporting burden on respondents, any semiannual special addendum questions would be sent to the respondents approximately three weeks in advance of the report as-of date. This advance notice would allow the respondents to submit the addendum data along with their regular monthly data. The data are edited and transmitted to the Federal Reserve Board for central processing. All data are due at the Federal Reserve Board on the 18th business day after the end of the month. Aggregate data are published in the Federal Reserve Board's monthly statistical releases Consumer Credit (G.19) and Finance Companies (G.20), in the quarterly statistical release Flow of Funds Accounts of the United States (Z.1), and in the *Federal Reserve Bulletin* (Tables 1.51, 1.52, and 1.55).

Sensitive Questions

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

Legal Status

The Board's Legal Division has determined that the FR 2248 is authorized by law (12 U.S.C. §225(a)) and is voluntary. Individual respondent data are confidential under section (b)(4) of the Freedom of Information Act (5 U.S.C. §552).

Estimate of Respondent Burden

The following table shows estimates of the burden imposed by the Federal Reserve System on the domestic finance companies that participate in the FR 2248. It is estimated that the proposed revisions to the FR 2248 would increase the reporting burden from 317 hours to 350, an increase of 33 hours. The burden increase is attributed to the new data items and the increase to the reporting frequency of 1-4 family real estate loans data items from quarterly to monthly. The FR 2248 information collection represents less than 1 percent of total Federal Reserve System paperwork burden.

| FR 2248 | <i>Number of respondents</i> | <i>Annual frequency</i> | <i>Estimated average time per response</i> | <i>Estimated annual burden hours</i> |
|-----------------|--------------------------------------|-----------------------------|--|--|
| Current | | | | |
| Monthly | 70 | 8 | 18 minutes | 168 |
| Quarterly | 70 | 4 | 27 minutes | 126 |
| Addendum | 70 | 2 | 10 minutes | <u>23</u> |
| | <i>Total</i> | | | 317 |
| Proposed | | | | |
| Monthly | 70 | 8 | 20 minutes | 187 |
| Quarterly | 70 | 4 | 30 minutes | 140 |
| Addendum | 70 | 2 | 10 minutes | <u>23</u> |
| | <i>Total</i> | | | 350 |
| | <i>Change</i> | | | 33 |

The total cost to the public is estimated to increase from the current level of \$13,346 to \$14,735 for the revised FR 2248.³

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing this report is estimated to be \$74, 310.

³ 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, 45% Financial Managers @ \$48, 15% Legal Counsel @ \$54, and 10% Chief Executives @ \$76). 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 2008, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/