

**Supporting Statement for
The Census of Finance Companies
(FR 3033p; OMB No. 7100-0277)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to conduct, with revision, the voluntary Census of Finance Companies (FR 3033p; OMB No. 7100-0277). This information collection includes the Quinquennial Finance Company Survey (FR 3033s), which will be reviewed in a separate proposal in mid-2010.¹ The census would be sent in April 2010 to all companies that meet criteria developed to identify the potential universe of domestic finance companies. An accurate census is required to form a representative sample of finance companies, to which a more detailed survey would be sent. The census would gather limited information including total assets, areas of specialization, and information on the corporate structure of the companies. The Federal Reserve has identified approximately 30,000 firms to which the census would be sent. From the universe of finance companies as determined by the census responses, a stratified random sample of 3,000 finance companies would be drawn for the 2011 survey.

The Federal Reserve proposes to: change the title, increase the respondent panel size, and revise the census to collect information needed to determine whether a company meets the FR 3033 definition of a finance company. A copy of the proposed census is attached. Based on an estimated response rate of 60 percent, 18,000 of the 30,000 companies would complete the census survey; the reporting burden for the census is estimated to be 6,000 hours.

Background and Justification

Since June 1955, the Federal Reserve System has surveyed the assets and liabilities of finance companies at five-year intervals. For purposes of this survey, finance companies were defined as companies (excluding commercial banks, cooperative banks, investment banks, savings banks, savings and loan institutions and industrial loan corporations or their subsidiaries) whose largest portion of assets is made up of consumer or business loans or leases. Through 1975, the known universe of finance companies was surveyed. To reduce reporting burden, in 1980 the survey was split into an extremely brief census, which has been sent to the known universe of finance companies, and a longer survey, which has been sent to a stratified random sample of finance companies. In 2005, the definition of finance company was revised to include companies whose largest portion of assets was made up of real estate loans; this change effectively brought mortgage companies into the panel. In addition, the survey was revised to instruct finance companies to include the assets and liabilities of their mortgage company subsidiaries.

The Federal Reserve has used the quinquennial survey data to benchmark the monthly data on major assets and quarterly data on liabilities of finance companies developed from the monthly Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248;

¹ Historically, this series, which began in 1955, has been reviewed in the same proposal document; however, in an effort to put forth a more robust and refined proposal and survey instrument staff has decided to delay the review of the survey.

OMB No. 7100-0005), which is collected from a smaller sample of companies. These data are used in internal analysis and are reported to the public in two monthly statistical releases: *Finance Companies* (G.20) and *Consumer Credit* (G.19), as well as the quarterly *Flow of Funds Account of the United States* (Z.1) release. As with many data series based on a fixed sample, errors of estimation tend to increase over time and thus require periodic correction. These errors reflect the evolution in the financial markets as new companies enter the market and market shares change and the deterioration of the monthly sample panel as respondents close, merge or otherwise leave the panel.

In addition to benchmarking the Flow of Funds data, information from the quinquennial survey also provides the Federal Reserve with an opportunity to learn about an important, and understudied, part of the financial system. Finance companies are a major supplier of credit to households and businesses, holding or managing about 30 percent of total consumer credit outstanding (a market share second to that of commercial banks) and a significant share of the short- and intermediate-term business finance market.

Finance companies have played a major role in the current financial crisis. Finance companies dominated the subprime mortgage market (Chomsisengphet and Pennington-Cross (2006)). Outside of the subprime sector, finance companies are thought to account for half of all mortgage originations, with a higher share among FHA-guaranteed mortgage originations. In 2007 and 2008, many finance companies experienced severe liquidity pressures that resulted in a wave of failures. Furthermore, finance companies are significant issuers of commercial paper and have been major users of the Term Asset-Backed Securities Lending Facility (TALF). Historically, regulation of this sector has been light, raising the possibility that finance companies might continue to be the conduit for high risk loans to the household sector. More immediately, as the nonbank lending arms of bank holding companies are often finance companies, understanding the nature of these companies is a necessary step in developing policies for consolidated bank regulation.

Description of Information Collection

The census would ask a set of questions designed to identify the universe of finance companies eligible for potential inclusion in the survey and to enable the stratification of the sample for more statistically efficient estimation.

Proposed Revisions

The Federal Reserve proposes to revise the census to improve the response rate and help staff identify respondents for the upcoming survey, once approved. The Federal Reserve proposes the following revisions to the census:

- Change title of census survey from *Finance Company Questionnaire* to *Census of Finance Companies*. The Federal Reserve believes using the term ‘census’ in the report title would stress that every response is important.
- Modify and combine Purpose of Report and Scope of the Report sections. The modifications would make the survey easier to understand.

- Change several questions to allow staff to gather information needed to make the determination of whether a company is a finance company rather than asking whether it meets the definition.² Staff believes these changes would improve the accuracy of identifying finance companies.
 - Delete current question 2, Is the above named company a finance company as defined above?
 - Add proposed question 2 (regarding the licensing of the company)
 - Add proposed question 4, Loans and leases represent what percentage of total assets?,
 - Renumber proposed question 5, Which of the following accounts for 50 percent or more of this company's loans and leases?
 - Revise and renumber current question 7 about the company's parent to collect more detailed information about the parent in proposed questions 7 (whether loans or leases make up 50 percent or more of the parent's assets) and 8 (regarding the licensing of the parent company)

Reporting Panel

Currently, the Federal Reserve is in the process of identifying the potential universe of finance companies. There is no national registry of finance companies, and it has been widely recognized that the procedures for determining the universe in the past were inadequate. To improve the methodology for identifying potential finance companies, staff focused on a specific geographic area — the state of Pennsylvania—as a case study of the information potentially available for identifying finance companies. By using information available in public records (which have excellent coverage in Pennsylvania) from the Pennsylvania Department of Banking, staff identified 2,855 entities that extend credit or are licensed to extend credit and that were not included in the previous census. In addition, staff worked with Dun and Bradstreet (D&B) to study the Standard Industrial Classification (SIC) codes of companies that were either identified as finance companies or companies identified as not being finance companies from the 2005 quinquennial. This information allowed staff to identify the most promising SIC codes for identifying potential finance companies. Cross-referencing information from the state of Pennsylvania with SIC code data from D&B, staff estimate that 397 finance companies in Pennsylvania were not included in the 2005 quinquennial.

For the nation as a whole, D&B identified approximately 27,000 companies which, based on their SIC code, may meet the FR 3033 definition of a finance company. A D&B algorithm enabled the consolidation of subsidiaries to the highest level of a corporate structure that may be a finance company, thus avoiding double counting within a corporate structure. In addition, staff used the Home Mortgage Disclosure Act³ (HMDA) data to identify approximately 3,000 additional mortgage lenders that may meet the FR 3033 definition of a finance company. As in the past, staff proposes to contact all companies identified as likely finance companies with the exception of companies that file the Financial Statements of U.S. Nonbank Subsidiaries of U.S.

² The Federal Reserve has the following pre-determined set of characteristics to internally determine if the respondent is a finance company. A finance company is defined as (1) a domestic entity, (2) a company with 50 percent of its assets in the form of loans or leases, and (3) a nondepository institution.

³ The HMDA data are collected on the FR HMDA-LAR (OMB No. 7100-0247).

Bank Holding Companies (FR Y-11, OMB No. 7100-0244).⁴ Staff would mail census forms to up to 30,000 companies. This is a substantial increase over the 2005 quinquennial in which 3,840 censuses were mailed. This proposed increase is driven by improvements in the data available to identify potential finance companies, especially web-based data from state authorities that license these companies. Staff believes that the increase in cost and burden from expanding the FR 3033p panel is warranted by the significant improvement in the statistical basis of the survey and the important role that finance companies have played in the financial crisis. Once the companies return the census, the Federal Reserve would determine the panel of respondents for inclusion in the survey sample.

If the census fails to achieve an 80 percent response rate then the Federal Reserve would conduct a nonresponse bias study as required by the Office of Management and Budget (OMB). In 2005, the quinquennial had a response rate of 22 percent. The Federal Reserve is uncertain as to likely response rates for the 2010 census. The proposed census has factors that could increase or decrease response rates. Factors that would improve response rates include improved nonresponse follow-up and survey design. However, the impact on expanding the sample is ambiguous and could decrease response rates. Staff expects that the response rate would be below 80 percent, thus staff is planning for the required nonresponse bias study.

While staff does not know the exact characteristics of the population of finance companies, it is reasonable to assume that the expansion of the panel would include smaller companies. The response propensities of smaller finance companies are not known, but for various reasons it is suspected that these companies would be less likely to participate than larger finance companies. Staff is planning to conduct improved follow-ups based on experience from other surveys, including a postcard reminder sent to nonrespondents approximately 10 days after the initial mailing and a re-mailing of the entire survey package to nonrespondents 15 days after the initial mailing. Staff believes that these improved follow-ups should bolster response rates. The redesign of the census and the use of a web-based survey are also expected to have positive effects on response rates.

To cope with the expected level of nonresponse to the census, staff intends to select a subsample of nonrespondents for further follow-up that would include both additional letters and phone calls. Comparison of the characteristics between this subsample and the general population would form the basis for the nonresponse bias study for the census and consequently serve to shape the design of the sample for the survey. The Federal Reserve anticipates further follow-up with 3,000 nonrespondents for the census.

Frequency

The Federal Reserve recommends retaining the five-year frequency for the census. Conducting the census less frequently would not provide staff with timely enough information to draw the survey panel. This first step allows staff to select more appropriate respondents for the survey and ultimately benchmark the FR 2248 accurately.

⁴ The Federal Reserve would use data from the FR Y-11 to replace the census for large subsidiaries of bank holding companies. Going forward, it is expected the nonbank sector may be the subject of increased interest and scrutiny by policymakers.

Time Schedule for Information Collection and Publication

The census would be mailed to the respondents in mid-April 2010 and would be due to the Federal Reserve Board within 15 business days of its receipt by respondents. In an effort to reduce burden and increase response rates, respondents would be encouraged to complete the census online. Also, staff has targeted the period following the March 2010 quarter-end and tax season for mailing the census. The Federal Reserve would target the 2nd quarter of 2010 so that the survey could be deployed on schedule to obtain year-end data. Given the expanded respondent panel (30,000) of the proposed census, the Federal Reserve is considering using optical scanner or similar technology to reduce data entry time and cost to the Federal Reserve. The Federal Reserve Board staff would process the results and approach Federal Reserve Banks in early May 2010 requesting follow-up telephone calls of selected companies that did not respond to the census.

Legal Status

The Federal Reserve Board's Legal Division has determined that the census is authorized by law (12 U.S.C. §§225a, 263, and 353-359) and is voluntary. Individual responses are exempt from disclosure pursuant to section (b)(4) of the Freedom of Information Act (5 U.S.C. §552).

Consultation Outside the Agency

For the renewal of this information collection, the Federal Reserve consulted with D&B to identify finance companies as potential respondents for the census.

Sensitive Questions

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

Estimates of Respondent Burden

Based on an estimated response rate of 60 percent, 18,000 of the 30,000 companies would complete the census. The total reporting burden for FR 3033p is estimated to be 6,000 hours. These reporting requirements represent less than 1 percent of 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> |
|--------------|------------------------------|-------------------------|---|--------------------------------------|
| FR 3033p | 18,000 | 1 | 0.33 hours | 6,000 |
| <i>Total</i> | | | | 6,000 |

The proposed total cost to the public is estimated to be \$369,900.⁵

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing the census will be obtained.

⁵ 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% Administrative or Junior Analyst @ \$25, 45% Managerial or Technical @ \$55, 15% Senior Management @ \$100, and 10% Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2007. <http://www.bls.gov/news.release/ocwage.nr0.htm>. Occupations are defined using the BLS Occupational Classification System. <http://www.bls.gov/soc/>.

References

Chomsisengphet, S. and Pennington-Cross, A. (2006), The Evolution of the Subprime Mortgage Market, *Federal Reserve Bank of St. Louis Review*, January/February, 88(1).

Dillman, D., Gertseva, A. and Mahon-Haft, T. (2005), Achieving Usability in Establishment Surveys Through the Application of Visual Design Principles, *Journal of Official Statistics*, Vol. 21, No. 2, pp. 183-214.