Supporting Statement for the
Survey of Finance Companies
(FR 3033; 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, a two-stage survey of finance companies in 2010 and 2011, continuing the regular five-year survey series (the "quinquennial") (FR 3033; OMB No. 7100-0277). This proposal pertains to the second stage of the quinquennial, the Survey of Finance Companies (FR 3033s). The first stage of the quinquennial, the Census of Finance Companies (FR 3033p), was implemented in April 2010. The FR 3033p was sent to all companies that met the criteria developed to identify the potential universe of domestic finance companies. From the universe of finance companies as determined by the FR 3033p, a stratified random sample of 3,000 finance companies would be drawn for the FR 3033s. The survey would be sent in February 2011 and collect detailed information, as of December 31, 2010, from both sides of the respondents' balance sheets, as well as companies' geographic scope of operations and servicing activities. The data collected from this voluntary survey would be used for two purposes: to benchmark the consumer and business finance series collected on the monthly Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005) and to increase the Federal Reserve's understanding of an important part of the financial system.

The Federal Reserve proposes to revise the FR 3033s by: (1) increasing the respondent panel size from 750 to 3,000; (2) adding a section to solicit information on servicing activities and geographic distribution of the company's activities; (3) changing the survey title; (4) revising the reporting form by reordering the asset and liability data items from most liquid to least liquid and asking for additional detail on assets and liabilities; and (5) adding two columns to create a clearer distinction among the broad balance sheet data items, detailed loan and lease data items, and off-balance-sheet securitization data items. Based on an estimated response rate of 60 percent, 1,800 of the 3,000 companies would complete the FR 3033s; the reporting burden is estimated to be 2,700 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 are defined as companies (excluding commercial banks, cooperative banks, investment banks, savings banks, savings and loan institutions and industrial loan corporations or their subsidiaries, but including subsidiaries of bank holding companies (BHC) or foreign banking organizations (FBO)[1]) whose consumer or business loans or leases made up 50 percent or more of their assets.

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[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 the subsidiaries of 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.

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 since that time. 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 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 monthly data series on major assets and quarterly data series on liabilities of finance companies developed from the FR 2248, which is collected from an even 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 finance companies, understanding the nature of these companies is a necessary step in developing policies for consolidated bank regulation.

Description of Information Collection

The survey would collect balance sheet data on major categories of consumer and business credit receivables and major liabilities. The Federal Reserve also proposes to gather information on the geographic scope of the company's operations and loan and lease servicing activities.

Proposed Revisions

The Federal Reserve proposes to revise the survey in order to (1) maximize the response rate, (2) improve the ability of respondents to answer the questions without additional burden, and (3) improve the ability of the Federal Reserve to analyze consumer credit outstanding held by finance companies in order to make informed policy decisions. The Federal Reserve proposes the following revisions to the cover page, reporting form, and instructions:

General changes to the cover page:

- Change the survey title from *Finance Company Survey* to *Survey of Finance Companies*.
- Modify the cover page to include the purpose of the survey and add Federal Reserve contact information to assist respondents with completing the survey.
- Add an introductory page to include: (1) definition of a finance company, (2) respondent contact information, and (3) introductory questions regarding consolidation rules.

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 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. Although all respondents are asked to complete the entire FR 3033s, a portion of respondents may be unwilling or unable to complete the entire form. To encourage participation among these potential respondents, the Federal Reserve proposes to add a column for reporting broad balance sheet data items that includes data items and subtotals that customarily appear on standard balance sheets of financial institutions. Reluctant respondents may be more inclined to provide these data, which are the most essential data items for the benchmark estimates and which could be allocated among the detailed categories using information provided by other respondents. Among respondents who complete the entire FR 3033s, the additional data items in this column would be readily available.
- Clarify various data items with brief descriptive captions.
- Add section headers that direct respondents to skip sections that are not applicable to their company.

Specific changes to the Balance Sheet

Assets

- Provide a separate breakout for data items: 1. Cash and cash equivalents and 2. Securities currently included in data item 6. Other assets and accounts and notes receivable. The proposed change would be consistent with the order of typical balance sheet presentations.
- 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.

- Renumber and retitle line 2. Loans secured by real estate as line 3.A. 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)). This data item customarily appears on the standard balance sheet of financial institutions; reluctant respondents may be more inclined to provide these data than loan and lease detail.
- Add data item 4.B(3). Other Business Leases, under the operating leases 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 and redefine data item 6. All other assets and accounts and notes receivable as data item 5.

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). This data item customarily appears on the standard balance sheet of financial institutions; reluctant respondents may be more inclined to provide these data than liability detail.
- Add two data items: 8.A. Retained earnings and common stock and 8.B. Preferred stock and other capital accounts. 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 undivided profits as 8.C. Total equity capital (sum of data items 8.A and 8.B). This data item customarily appears on the standard balance sheet of financial institutions; reluctant respondents may be more inclined to provide these data than equity capital detail.

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[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.

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

- 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) statistical release.

Add section - Your Company's Scope of Operation.

- Add question 1. Outstanding principal balance of assets serviced for others and not included in the company's total assets. The financial crisis (especially mortgage markets) has highlighted the systemic importance of loan servicers for assessing systematic risk.
- Add questions 2 - 6 to collect information on the geographic distribution of a company's activities. The geographic coverage of individual finance companies will be used for two primary purposes: (1) to help determine the systemic importance of each institution in the U.S. financial sector and the U.S. economy and (2) to analyze business and household credit availability and competitive conditions in specific lending markets.

Add a section for respondent to provide additional comments or explanations to responses.

Reporting Panel

Given the important changes in the market, the uncertainty about the composition of the previously unknown part of the universe of finance companies, the uncertainty about response patterns within the size groups and specialization categories, and the length of time between benchmark surveys, the Federal Reserve proposes increasing the authorized FR 3033s survey sample size from 750 to 3,000 finance companies. As a result of the FR 3033p responses, the Federal Reserve will have identified the universe of finance companies for the survey.[3] The survey would be stratified by size of total assets and by specialization in receivables. The survey sample would likely include all FR 3033p respondents that reported at least $1 billion in total assets. For coverage of smaller respondents[4], the main survey sample would include a sufficient number of companies with assets under $1 billion to provide adequate representation for the expected analytical purposes.

In 2005, the Federal Reserve sent the survey to 740 finance companies and received 161 usable responses (22 percent). The 2005 population size, total sample, and the number of responses in each stratum are shown in Table 1. Table 1 also shows the estimated response rate associated with two panel sizes (750 and 3,000 companies), based on the response rates to the 2005 survey.[5]

[3] 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 or more of its assets in the form of loans or leases, and (3) a nondepository institution.
[4] For the purposes of this proposal, the term small or smaller respondent or company is defined as a company that reports less than $1 billion in assets.
[5] The Federal Reserve applied the comparable 2005 response rates for each size and specialty group so that the overall response rate estimated for the 2010 survey need not equal the overall response rate of 22 percent in 2005.

Given that the universe of finance companies has probably changed significantly since December 2005, error estimates based on the 2005 data must be interpreted as a rough guideline for the census panel structure. The Federal Reserve has considered the error implications associated with two panel sizes (750 and 3,000 companies) and their associated response patterns.

Table 1
Survey Response Distribution by Asset Size of Finance Company

Asset size	2005 FR 3033p	2005 FR 3033s		2010 Estimated response for FR 3033s panel size	
	Estimated population	Total sample	Number of usable responses	750	3000
Less than $1 million	381	18	3	33	182
$1 to less than $10 million	574	332	41	24	104
$10 to less than $100 million	347	219	52	36	179
$100 million to less than $1 billion	131	98	25	32	64
$1 to less than $3 billion	23	23	10	10	10
$3 to less than $20 billion	34	31	11	11	11
$20 billion or more	19	19	19	19	19
Totals	1,509	740	161	165	569

The estimated response distributions, shown in Table 2, assume that the response rate for each size and specialization combination would be no greater than the level attained in 2005. The Federal Reserve calculated the standard errors of the simple expansion estimator that is used to derive population aggregates under the assumption that whether a company responded or not was completely random. Strictly speaking, the standard errors for sample sizes (assuming the response rate mentioned above) can only be said to hold for the 2005 survey population. Response rates may fall below the level of 2005, but the Federal Reserve intends to make a concerted effort to raise response rates substantially; the estimated standard errors would fall if this effort is successful.

Table 2
Estimated Standard Errors of Aggregate Levels of Finance Company Receivables in Selected Balance Sheet Categories for Alternate Panel Sizes

(Based on 2005 benchmark data; $ in billions with % of outstanding in parentheses)

Financial items	Panel size	
	750	3,000
	Estimated number of responses	
	165	569
Total	46.67 (2.12)	46.01 (2.09)
Total consumer	23.82 (3.88)	23.32 (3.80)
Motor vehicle	37.51 (11.10)	37.49 (11.10)
Revolving	3.07 (4.57)	3.05 (4.54)
Other	16.67 (8.91)	15.84 (8.47)
Real estate	16.60 (3.12)	16.32 (3.07)
Total business	29.68 (5.86)	29.51 (5.83)
Motor vehicle	7.93 (8.09)	7.12 (7.26)
Equipment	32.32 (12.75)	32.12 (12.67)
Other	3.80 (4.00)	3.21 (3.38)
Bank loans	7.81 (8.89)	6.77 (7.71)

Note: For calculating standard errors, some combinations of size group and specialization category have been collapsed into a single size group when the sample size was insufficient.

This proposed survey sample size is less than the percentage of the population the Federal Reserve has surveyed in the past. In 2005, the Federal Reserve sent out approximately 740 surveys, which was roughly half of the estimated population. In 2010, the Federal Reserve proposes to send out 3,000 surveys, which is roughly one-quarter of the population.[6]

To cope with the expected level of nonresponse to the survey, the Federal Reserve intends to select a subsample of nonrespondents for further follow-up that would include both additional letters and phone calls. The follow-up study would explore nonresponse bias and

[6] A preliminary estimate of the 2010 population was calculated using the number of Census forms mailed out in 2010 (about 27,000) and assuming that the ratio of the estimated population size to the number of Census forms mailed is the same as it was in 2005 (approximately 40 percent).

would include questions related to, but not necessarily identical to, the survey questions. These follow-up questions may be helpful in understanding the key dimensions of nonresponse.

Frequency

The Federal Reserve proposes to retain the five-year frequency for the survey.

Time Schedule for Information Collection and Publication

The FR 3033s would be mailed in February 2011. The respondent panel of 3,000 companies would include 45 companies that are FR 2248 reporters and 2,955 non-FR 2248 companies. Respondents would be directed to either complete the survey online or mail responses to the Federal Reserve Board. The survey would be mailed after February 15, 2011, with instructions to respond by March 15, 2011. After March 15, 2011, follow-up mailings would be sent to companies that do not respond and follow-up calls would be made after April 1, 2011.

Once the data from FR 3033s have been analyzed, they would be used as a benchmark to the FR 2248 for the period December 2005 through December 2010. It is anticipated that this phase of analysis would be completed by mid-2011, at which time benchmark estimates based on the FR 3033s data would be publicly reported. The newly benchmarked series would be published in the Federal Reserve's monthly *Finance Companies* (G.20), monthly *Consumer Credit* (G.19) and quarterly *Flow of Funds Accounts of the United States* (Z. 1) releases.

Legal Status

The Board's Legal Division has determined that the FR 3033s is authorized pursuant the Federal Reserve Act (12 U.S.C. §§ 225a, 263, and 355-59). Obligation to respond to this information collection is voluntary. Individual respondent data are confidential under section (b)(4) of the Freedom of Information Act (5 U.S.C. §552).

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.

Sensitive Questions

This information collection contains no sensitive questions as defined by OMB guidelines.

Estimates of Respondent Burden

Based on an estimated response rate of 60 percent, approximately 1,800 of the 3,000 companies would complete the FR 3033s. The total reporting burden for FR 3033s is estimated to be 2,700 hours. The FR 3033s information collection represents less than 1 percent of total Federal Reserve System paperwork burden.

Table 3
Estimates of Respondent Burden

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
FR 3033s	1,800	1	1.5 hours	2,700

The proposed total cost to the public is estimated to be $113,670.[7]

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing the quinquennial is estimated to be $45,800.

[7] 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, http://www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, http://www.bls.gov/soc/