

**Supporting Statement for the
Census of Finance Companies and Survey of Finance Companies
(FR 3033p/s; 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 revise, the Census of Finance Companies and Survey of Finance Companies, continuing the regular five-year survey series (the "quinquennial") (FR 3033; OMB No. 7100-0277). This information collection includes both the Census of Finance Companies (FR 3033p) and the Survey of Finance Companies (FR 3033s). The data collected from this voluntary survey would be used 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).

The first stage of the quinquennial, the 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. An accurate census was required to form a representative sample of finance companies, to which a more detailed survey would be sent. The census gathered limited information including total assets, areas of specialization, and information on the corporate structure of the companies. The Federal Reserve identified approximately 30,000 firms to which the census was sent.

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 the following differences between the proposed FR 3033s and the 2005 survey: (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 for the FR 3033s is estimated to be 2,700 hours. The total annual burden for the FR 3033 information collection is estimated to increase from 6,000 to 8,700 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. 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.

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). 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.

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.

Description of Information Collection

FR 3033p

The census asked 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. The information collection for the FR 3033p² was approved in April 2010 and included the following revisions: the title of census survey was revised from *Finance Company Questionnaire* to *Census of Finance Companies*, the Purpose of Report and Scope of the Report sections was modified, the respondent panel size was increased, and several census questions were revised to collect information needed to determine whether a company meets the FR 3033 definition of a finance company.

Reporting Panel

The Federal Reserve 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. 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. In addition, the Federal Reserve 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, the Federal Reserve contacted 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. Bank Holding Companies (FR Y-11, OMB No. 7100-0244).⁴ The Federal Reserve mailed census forms to approximately 30,000 companies. This is a substantial increase over the 2005 quinquennial in which 3,840 censuses were mailed. This proposed increase was driven by improvements in the data available to identify potential finance companies, especially web-based data from state authorities that license these companies. The Federal Reserve believed that the increase in cost and burden from expanding the FR 3033p panel was 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 returned the census, the Federal Reserve determined the panel of respondents for inclusion in the survey sample.

FR 3033s

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.

² On April 9, 2010, the Federal Reserve published a final notice in the *Federal Register* (75 FR 18208).

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

⁴ The Federal Reserve would use data from the FR Y-11 to replace the census for large subsidiaries of bank holding companies.

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.
- 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. The Federal Reserve proposes adding a column for the off-balance-sheet securitization data items.
- 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.
- 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.⁵ 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.
- 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.

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.

⁵ 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 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 has identified the universe of finance companies for the survey.⁶ 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 respondents⁷, 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 2011 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.⁸

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 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 recommends retaining the five-year frequency for the census and the survey. Conducting the census and survey less frequently would be undesirable because it would

⁶ 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.

⁷ 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.

⁸ 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).

lengthen the time between benchmarks of the FR 2248, which in turn would decrease the accuracy of the aggregate estimates.

Time Schedule for Information Collection and Publication

The FR 3033p was mailed to the respondents in mid-April 2010 and responses were 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 were encouraged to complete the census online. Also, the Federal Reserve targeted the period following the March 2010 quarter-end and tax season for mailing the census. The Federal Reserve targeted the 2nd quarter of 2010 so that the survey was deployed on schedule to obtain year-end data. The Federal Reserve Board processed the results and the Federal Reserve Banks conducted follow-up telephone calls of selected companies that did not respond to the census in early May 2010.

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 Federal Reserve Board's Legal Division has determined that the FR 3033p/s is authorized pursuant the Federal Reserve Act (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 and Discussion of Public Comment

For the renewal of the FR 3033p, the Federal Reserve consulted with D&B to identify finance companies as potential respondents for the census. On January 29, 2010, the Federal Reserve published a notice in the *Federal Register* (75 FR 4819) requesting public comment for 60 days on the implementation of the FR 3033p. The comment period for this notice expired on March 30, 2010. The Federal Reserve did not receive any comments. On April 9, 2010, the Federal Reserve published a final notice in the *Federal Register* (75 FR 18208), implementing the census as proposed.

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 implementation, with revision, of the FR 3033s. The comment period for this notice expired on November 12, 2010. The Federal Reserve did not receive any comments. On November 23, 2010, the Federal Reserve published a final notice in the *Federal Register* (75 FR 71439), implementing the survey as proposed.

Sensitive Questions

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

Estimates of Respondent Burden

The total reporting burden for FR 3033p is estimated to be 6,000 hours. 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 total annual burden for the FR 3033 information collection is estimated to increase from 6,000 hours to 8,700 hours. The FR 3033p/s information collection represents less than 1 percent of total Federal Reserve System paperwork burden.

Estimates of Respondent Burden

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current:</i>				
FR 3033p	18,000	1	0.33	6,000
<i>Proposed:</i>				
FR 3033p	18,000	1	0.33	6,000
FR 3033s	1,800	1	1.5	<u>2,700</u>
<i>Total</i>				8,700
<i>Change</i>				2,700

The current cost to the public for the FR 3033p is estimated to be \$252,600. The total proposed cost for the FR 3033p/s is \$366,270.⁹

⁹ 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/>

Estimate of Cost to the Federal Reserve System

The estimated current cost to the Federal Reserve System for collecting and processing the FR 3033p is estimated to be \$52,000. The estimated proposed cost to the Federal Reserve System for collecting and processing the FR 3033s is estimated to be \$45,800. The total proposed cost to the Federal Reserve System for collecting and processing the FR 3033p/s is estimated to be \$97,800.