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, without revision, the Senior Loan Officer Opinion Survey on Bank Lending Practices (FR 2018; OMB No. 7100-0058). This voluntary survey is conducted with a senior loan officer at each respondent bank, generally through a telephone interview, 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 interview. The 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 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. The estimated maximum annual burden, based on six surveys, is 1,008 hours. 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] Selected information from the surveys is published annually in a *Federal Reserve Bulletin* article.

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

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[1] http://www.federalreserve.gov/boarddocs/SnLoanSurvey/

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 Greenbook and in other internal briefing materials. This information has been particularly valuable in recent quarters 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. The results are also included in the Federal Reserve Board's reports to Congress on *Credit Availability for Small Businesses and Small Farms*, which are produced every five years pursuant to Section 477 of the Federal Deposit Insurance Corporation Improvement Act of 1991. The survey results have also been useful in enabling the Federal Reserve to keep abreast of complex banking practices 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 on backup lines of credit for commercial paper programs, banks' involvement in the syndicated loan market, and banks' expectations about changes in asset quality and credit standards. 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

[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.

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. 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. To understand certain banking practices, however, the Federal Reserve occasionally needs to ask quantitative questions. 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 and that response rates overall have 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 included 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 the recurring questions on consumer lending because the branches and agencies typically make few, if any, consumer loans.

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 very large 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 implementing new banking techniques. However, the panel also includes a fair number of large and medium-sized regional banks, which allows for a greater diversity of responses and provides a broader view of the banking system.

As of September 30, 2008, the panel of domestic respondents contained 56 banks, 32 of which had assets of $20 billion or more. The assets of the panel banks totaled $6.9 trillion and accounted for about 67 percent of the $10.4 trillion in total assets at domestically chartered institutions.

Selection Criteria for the Domestic Bank Panel. In selecting the panel, the Federal Reserve has generally imposed three constraints. The first is size: the Federal Reserve eliminates banks having less than $3 billion in assets or for which commercial and industrial (C&I) loans are less than 5 percent of total loans, with few exceptions.[3] The second is

[3] As of September 30, 2008, one institution had less than $3 billion in assets and two banks had C&I loans that were less than 5 percent of total assets.

geographic diversity: the Federal Reserve attempts to include between two and ten banks in each District.[4] 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).[5]

The Federal Reserve would maintain the objective of including at least two banks from each District, but because of continued consolidation and rapidly evolving developments in credit markets, the Federal Reserve may opt to increase the maximum number of banks within the same District that could respond to the domestic survey (from 8 to 10).

U.S. Branches and Agencies of Foreign Banks. As of September 30, 2008, the panel of foreign respondents contained 23 institutions, 17 of which were located in the New York District. These respondents held $184.8 billion in C&I loans, or 57 percent of the C&I loans held by all U.S. branches and agencies of foreign banks. 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 current authorized panels of 60 domestically chartered commercial banks and 24 U.S. branches and agencies of foreign banks continue to 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, or other financial entities) in addition to the current panel. 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 Reserve Bank or Federal Reserve staff, as appropriate.

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

[4] Four institutions that are currently in the panel report main offices in Federal Reserve Districts that are different from those that collect their responses to the survey.

[5] 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 sufficiently independent.

As noted earlier, the survey is generally conducted through a telephone interview by senior Reserve Bank staff with knowledge of bank lending practices. Reserve Bank staff typically interviews a senior loan officer at each respondent bank. Reserve Banks supply the survey questions to respondents in advance of the initial telephone contact. 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 annual *Federal Reserve Bulletin* articles.[6]

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 law (12 U.S.C. §§ 225a, 248(a)(2), and 3105(c)(2)) and is voluntary. The individual bank information provided by each respondent is accorded confidential treatment under authority of exemption four of the Freedom of Information Act (5 U.S.C. §552 (b)(4)).

Consultation Outside the Agency

On February 26, 2009, the Federal Reserve published a notice in the *Federal Register* (74 FR 8794) requesting public comment for 60 days on the extension, without revision, of the FR 2018. The comment period for this notice expires on April 27, 2009.

Estimate of Respondent Burden

As shown in table 1, based on six surveys per year and an average response time of two hours, the total annual burden for the FR 2018 survey is estimated to be 1,008 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 about two hours of a respondent's time.[7] The annual burden for the FR 2018 represents less than 1 percent of total respondent burden for the Federal Reserve System.

[6] For instance "Profits and Balance Sheet Developments at U.S. Commercial Banks in 2007," by William Bassett and Thomas King, Federal Reserve Bulletin, 2008, vol. 94.

[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.

Table 1
Estimate of Respondent Burden

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
FR 2018	84	6	2	1,008

The total cost to the public is estimated to be $76,507.[8]

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

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

[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: 20% Clerical at $25, 30% Managerial or Technical at $55, 40% Senior Management at $100, and 10% Legal Counsel at $144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.