

FEDERAL RESERVE BANK OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT

June 5, 1992

Notice 92-49

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

Request for Comments on Proposed Changes to the Reports of Condition and Income, the Thrift Financial Report, and the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks

DETAILS

The Federal Financial Institutions Examination Council (FFIEC) has announced that it is proposing certain changes to the Reports of Condition and Income, filed by insured commercial banks and FDIC-supervised savings banks; to the Thrift Financial Report, filed by savings associations; and to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks, filed by U.S. branches and agencies of foreign banks.

These changes involve the annual collection of information on the number and amount outstanding of loans to small businesses and to small farms, and the estimated amount of income and net charge-offs on these loans. The annual collection of information on small business and small farm lending in regulatory reports submitted by insured depository institutions is required by Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991. The proposed effective date for these reporting changes is the June 30, 1993, report date.

The council must receive comments by June 19, 1992. Comments should be addressed to Joe M. Cleaver, Executive Secretary, Federal Financial Institutions Examination Council, 2100 Pennsylvania Avenue, N.W., Suite 200, Washington, D.C. 20037.

ATTACHMENT

A copy of the FFIEC's notice as it appears on pages 21409-14, Vol. 57, No. 98, of the Federal Register dated May 20, 1992, is attached.

MORE INFORMATION

For more information, please contact the individuals listed in the attached FFIEC proposal. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

Robert D. McTeer, Jr.

**Reporting of Information on Small
Business and Small Farm Lending by
Banks, Thrifts, and U.S. Branches and
Agencies of Foreign Banks**

AGENCY: Federal Financial Institutions
Examination Council.

ACTION: Request for comment.

SUMMARY: The Federal Financial
Institutions Examination Council
(FFIEC) is proposing certain changes to
the Reports of Condition and Income
filed by insured commercial banks and
FDIC-supervised savings banks, to the
Thrift Financial Report filed by savings
associations, and to the Report of Assets

and Liabilities of U.S. Branches and Agencies of Foreign Banks filed by U.S. branches and agencies of foreign banks. These changes involve the annual collection of information on the number and amount outstanding of loans to small businesses and to small farms, and the estimated amount of income and net charge-offs on these loans. The proposed changes are to fulfill the requirements of section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (Act). The information that would be collected also may assist the Federal Reserve Board in satisfying the requirements of section 477 of the Act. The proposed effective date for these reporting changes is the June 30, 1993, report date.

DATES: Comments must be received by June 19, 1992.

ADDRESSES: Comments should be sent to Joe M. Cleaver, Executive Secretary, Federal Financial Institutions Examination Council, 2100 Pennsylvania Avenue, NW., suite 200, Washington, DC 20037 or delivered to the same address between the hours of 9 a.m. and 5 p.m. on business days.

FOR FURTHER INFORMATION CONTACT:

OCC: Gary Christensen, National Bank Examiner, Chief National Bank Examiner's Office, Office of the Comptroller of the Currency, 250 E Street, SW., Washington, DC 20219, (202) 874-5190.

FRB: Thomas R. Boemio, Supervisory Financial Analyst, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, 20th and Constitution Avenue, NW., Washington, DC 20551, (202) 452-2982.

FDIC: Robert F. Storch, Chief, Accounting Section, Division of Supervision, (202) 898-8906 or J. William Via, Jr., Counsel, Legal Division, (202) 898-3733, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

OTS: Thomas A. Loeffler, Assistant Director for Supervisory Operations, Office of Thrift Supervision, 1700 G Street, NW., Washington, DC 20552, (202) 906-5762.

SUPPLEMENTARY INFORMATION:

Provisions of Section 122

Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("Act") requires that the Federal Reserve Board ("FRB"), the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("OCC"), and the Office of Thrift Supervision ("OTS") (collectively, the "federal banking agencies" or the

"agencies") annually collect in the "reports of condition" such information from insured commercial banks, savings banks, savings associations, and insured U.S. branches of foreign banks (collectively, "insured depository institutions") on small business and small farm lending as the agencies may need to assess the availability of credit to these sectors of the economy. The term "reports of condition" includes for insured commercial banks and FDIC-supervised savings banks, the Reports of Condition and Income; for savings associations, the Thrift Financial Report; and for U.S. branches and agencies of foreign banks, the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (collectively, these reports are referred to as the "reports of condition"). The statute indicates that the types of information that the agencies may collect in the reports of condition may include:

(a) The total number and dollar amount of commercial loans and commercial mortgage loans to small businesses,

(b) Charge-offs and interest and fee income on commercial loans and commercial mortgage loans to small businesses, and

(c) Agricultural loans to small farms.

The Act does not explicitly require the agencies to collect any specific information with respect to loans to small businesses or agricultural loans to small farms.

Provisions of Section 477

Another section of the Act, section 477, requires the Federal Reserve Board to collect and publish, on an annual basis, information on the availability of credit to small businesses. According to the statute, the information shall, to the extent practicable:

(a) Include information on commercial loans to small businesses, agricultural loans to small farms, and loans to minority-owned small businesses,

(b) Be given for categories of small businesses determined by annual sales of small businesses and for small businesses in existence for less than a year, and

(c) Be given for each geographic region of the United States.

Section 477 does not require the Federal Reserve Board to collect all or any of these items on the reports of condition. Indeed, the section directs the Federal Reserve Board to take into consideration the need to minimize reporting costs on financial institutions when deciding what information can be practically collected. While the requirements of section 477 are not tied to reporting requirements of section 122,

the information collected on the reports of condition under section 122 could be used as a source for some of the information that the Federal Reserve might need for the annual publication required by section 477. The Federal Reserve may be able to collect some information to compile the annual publication on credit available to small businesses from other sources, such as existing or new surveys, that would impose less reporting costs on financial institutions.

At this time the FFIEC has not proposed collecting data on minority-owned businesses or data on small businesses in existence for less than a year on the reports of condition. The FFIEC requests comments on the feasibility and costs of collecting information on these two types of loans on the reports of condition. Alternatively, less burdensome means of collecting information on these types of loans may be available and the FFIEC requests suggestions on what these other means might be as well as comments on their associated costs and burdens.

In addition, the FFIEC is not proposing to collect information on the geographic distribution of small businesses borrowers on the reports of condition. In the interest of reducing reporting burden, the FFIEC suggests that the geographic location of the lending institution is a suitable proxy that may be used in assessing the availability of credit in specific regions of the United States. The FFIEC seeks comments on using the geographic location of the lending institution as a suitable proxy for such an assessment.

Proposed Report Schedule

In order for the federal banking agencies to implement section 122 of the Act, the FFIEC is proposing to introduce a new schedule to the reports of condition to collect selected balance sheet and income statement information related to loans to small businesses and small farms. All insured depository institutions, regardless of asset size, would be required to complete this schedule. The language of section 122 does not appear to provide the agencies with the ability to exempt certain classes or sizes of insured depository institutions from this reporting requirement.

In addition, although section 122 requires insured depository institutions to report information on small business and small farm loans, the FFIEC is proposing to collect this information from both insured and noninsured U.S. branches and agencies of foreign banks.

Under the principle of national treatment, reporting requirements imposed on the U.S. operations of U.S. depository institutions should also be extended to the U.S. operations of foreign banks. Furthermore, to the extent that noninsured U.S. branches and agencies of foreign banks provide credit to small businesses and small farms, the collection of data on these loans from noninsured entities may assist the Federal Reserve in preparing the annual publication on the availability of credit to small businesses that is required by section 477.

Essentially, the proposed schedule would collect data on the number, the amount outstanding, estimated charge offs (net of recoveries), and estimated interest and fee income on loans to small businesses and small farms. These are the types of information that section 122 suggests that the agencies may collect on loans to small businesses. In the absence of any statutory guidance on the collection of data on loans to small farms, the FFIEC is proposing that the agencies should collect the same types of information on loans to small farms as on loans to small businesses and requests comments on the feasibility and costs of collecting such information. In addition, the number and amount outstanding of loans to small businesses would be reported for three size categories of small businesses. This would permit the Federal Reserve to use the reports of condition to collect part of the information necessary to publish the report required by section 477 which suggests that, to the extent practicable, the information for categories of small businesses be determined by annual sales.

Definition of Small Business and Small Farm

Section 122 does not specify an operational definition of small business or small farms to be used for classifying loans on the reports of condition. For some lenders, a small business is one that is independently operated, probably with fewer than 5 or 10 employees, and annual sales of \$100,000 or less. Others define small businesses to include firms with several million dollars in annual sales and up to 500 employees that rely heavily on local depository institutions for credit and have limited or no access to capital markets.

A meaningful definition of small business depends on many factors, including the form of business structure (corporation, partnership, proprietorship), the industry, and the purposes for which the information will be used. A comprehensive analysis of small business finance would need to

take into account a far wider range of market factors and business characteristics than can feasibly be reported by depository institutions. Indeed, to avoid extraordinary reporting burdens, the agencies believe it is important to select a simple and concise definition of small business and small farm.

After considering several measures, including number of employees, asset size, net worth and sales, the agencies are proposing to use "annual sales volume" as the measure by which institutions should classify the size of business and farm borrowers. Evidence suggests that lenders are likely to have information on sales volume while other measures may not be as readily available. Moreover, section 477 of the Act makes reference to categories of small businesses determined by annual sales. Sales volume typically has been used in surveys that focused on small business programs.

The FFIEC recognizes that depository institutions of different asset sizes may have their own internal definitions of small businesses and small farms that differ from the definitions proposed below. However, for the reports of condition, a standard definition is needed for each term to ensure that the data are comparable. The FFIEC is proposing to define a small business as a business with annual sales of less than \$10 million, and to define a small farm as a farm with annual sales of less than \$500,000. Based on 1987 data from Dun's Market Indicator File, which covers approximately 5 million business firms, almost 98 percent of all nonagricultural, nonfinancial business firms have annual sales of less than \$10 million. As a result, the FFIEC believes that \$10 million in annual sales would be an appropriate upper limit in defining the size of a small business.

For the same reasons mentioned above, the FFIEC is proposing that annual sales also be used as the basis upon which to define a small farm. With respect to the dollar size of a small farm, the FFIEC relied on available data from the Census of Agriculture that suggested that few farms have annual sales of more than \$1 million. In addition, agency staff discussions with representatives of bank trade associations indicated that, in their view, small farms were those with annual sales of less than \$500,000.

The FFIEC specifically seeks comment on the appropriate amount of sales that should be used as the basis upon which to define a small business and a small farm. In addition, because sales for farms and many small businesses may vary considerably from year to year, the

FFIEC seeks comment on whether depository institutions should be given the option of using a three-year average of annual sales to determine the size for small businesses or for small farms.

For purposes of reporting loans to small businesses and small farms, this proposal would require that depository institutions determine whether a business or farm is small based on the most recent annual sales of the business or farm at the time the loan is made, renewed, rolled over, or otherwise undergoes a credit decision, whichever is most recent. Similarly, the size category of a small business also would be fixed at the time the loan is made, renewed, rolled over, or otherwise undergoes a credit decision, whichever is most recent. The FFIEC seeks comments on whether or not this basis is reasonable. In this way, depository institutions would not necessarily be required to review each loan to a business or farm each year to determine whether the annual sales of the borrower still fell within the small business or small farm definition or whether, for loans to small businesses, the small business's annual sales had changed to that of a different size category. However, the FFIEC seeks comment on whether, for loans outstanding at the effective date of the schedule (proposed to be June 30, 1993), depository institutions should be required to determine the annual sales of their business and farm borrowers when these loans were originated; renewed or rolled over, whichever is most recent, or whether they should be permitted to make this determination based on the borrower's most recent annual sales.

Under the FFIEC's proposal, information will be collected separately for two general categories of loans: "Loans to small businesses" and "Loans to small farms." Loans to small businesses will consist of (1) commercial and industrial loans and (2) loans secured by nonfarm nonresidential properties. Loans to small farms will consist of (1) to finance agricultural production and others loans to farmers and (2) loans secured by farmland (including farm residential and other improvements). Each of these latter four categories of loans would be defined in the same manner as in the present loan schedule (Schedule RC-C) of the bank Reports of Condition and Income.

With respect to loans to small businesses, the FFIEC is proposing that depository institutions separately report the number and amount outstanding of loans for three size categories of small businesses: those with annual sales of

less than \$250,000, those with annual sales of \$250,000 up to \$1 million, and those with annual sales of \$1 million up to \$10 million. While section 122 of the Act does not specifically recommend a breakdown of the total number and amount outstanding of loans to small businesses, the three size categories included in the FFIEC's proposal are intended to assist the Federal Reserve Board in complying with section 477. Collecting loan information for more than one category of small businesses also should provide some flexibility to users of the data who may have different opinions of what constitutes a small business or who may have an interest in small businesses of particular sizes.

Nevertheless, the FFIEC recognizes that a requirement to report the proposed three-way breakdown of loans to businesses with annual sales of less than \$10 million is more burdensome than reporting only totals for all businesses with annual sales of less than \$10 million. This is particularly true for a smaller depository institution that may make few, if any, loans to business borrowers with annual sales above \$10 million. Consequently, the FFIEC specifically requests comment on the additional burden (in terms of cost and/or hours of time to compile the data) associated with reporting loans to small businesses using the proposed three-way annual sales breakdown rather than reporting such loans without a breakdown by annual sales. The FFIEC also would like to know if there are alternative small size categories, other than those proposed, that would reduce the reporting burden.

As an alternative to the proposed collection of the number and amount outstanding of loans to three categories of small businesses based on annual sales, the FFIEC is interested in receiving comment on whether depository institutions would be able to provide reasonable estimates of the percentage of their total loans to small businesses (that is, loans to businesses with less than \$10 million in annual sales) that have been made to small businesses with annual sales in each of the three smaller proposed size categories. If so, a comparison between the reporting burden of this alternative and the burden of reporting the actual amount of loans to each of the three size categories of small businesses would be helpful to the agencies.

Interest and Fee Income

The FFIEC is proposing to collect estimated amounts for interest and fee income on loans to small businesses (in total without any breakdowns by size of

business) and on loans to small farms, as well as estimated amounts for net charge-offs on these types of loans. The estimates of income and net charge-offs would be for the one year period ending on the report date (currently proposed to be June 30th). Estimates of selected income-related information have been collected in the commercial bank Reports of Condition and Income for several years in an effort to minimize the reporting burden on reporting institutions. The collection of reasonable estimates for interest and fee income and net charge-offs on small business and small farm loans may represent an appropriate method for balancing reporting burden with the statutory recommendation that this information be collected.

Although the proposal would require all depository institutions to report their estimated interest and fee income on small business and small farm loans, the FFIEC notes that banks with less than \$25 million in total assets have never been required to provide a breakdown of their interest and fee income on loans by loan category in their Reports of Condition and Income. These small banks have been exempt from reporting loan income breakdowns in order to minimize their reporting burden. The FFIEC seeks comment on the amount of burden that a requirement to report small business and small farm loan income will impose on banks with less than \$25 million in total assets and whether the present small bank exemption should be extended to the reporting of estimates of loan income from loans to small businesses and small farms in the proposed new Call Report schedule.

In addition, because they are only a part of a larger depository institution, U.S. branches and agencies of foreign banks do not report income or charge-off data in the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks. The FFIEC requests comment on the burden that will be imposed on U.S. branches and agencies by a requirement to report estimates of small business and small farm loan income and net charge-offs and the basis upon which some or all U.S. branches and agencies might be exempted from reporting such estimates.

Thrift Reporting

While the OTS recognizes the statutory requirement to collect the data cited in this notice, the OTS also recognizes the limited role of savings associations in commercial and agricultural lending. In this context, the OTS solicits comment on the reporting

burden for thrift institutions associated with the proposed data collection.

Savings associations are restricted from investing in excess of percent of assets in unsecured commercial and industrial loans. This type of lending for private sector savings associations amounted to \$16.4 billion as of December 31, 1991, accounting for 1.9 percent of total assets, compared to \$27.1 billion as of March 31, 1990, or 2 percent of total assets. In contrast, as of December 31, 1991, commercial banks held \$447.2 billion of commercial and industrial loans (to U.S. addressees). The OTS solicits comment on the level of detail for this type of lending that would serve the purposes of the statutory data collection from thrift institutions.

Furthermore, for savings associations the Financial Institutions Reform, Recovery, and Enforcement Act of 1981 limited the total amount of each institution's nonresidential real property loans to 400 percent of its total capital. The OTS believes that most of these loans are made to property owners whose primary source of income is from the rental of the property rather than loans made to businesses offering the property as security for the loan. The OTS requests comment on (1) the nature of lending secured by nonresidential real estate most common to thrift institutions, (2) the applicability of the proposed sales levels to businesses whose revenue measured by rental income, and (3) whether the businesses represented by lending on nonresidential real estate are "small businesses" as the term is commonly defined.

OTS does not currently collect data separately on the amount of agricultural loans held by thrift institutions and solicits comment on the necessity for separate data collection on agricultural loans to small farms given the limited extent to which the thrift industry is involved in this type of lending.

Effective Date

The FFIEC is proposing that the new reporting requirements for small business and small farm lending will take effect with the reports of condition to be prepared as of June 30, 1993. This would provide time for institutions to develop systems for collecting and reporting the new information. The proposed information would be reported as of each June 30th thereafter. Comment is requested on whether this quarter-end report date or some other quarter-end date is the most appropriate for collecting the information each year.

The FFIEC are requesting comment on the proposed schedule to collect

Part IV. Estimated Income and Charge-Offs on Agricultural Loans to Small Farms

Dollar amount in thousands	(Column A) Loans to finance agricultural production and other loans to farmers			(Column B) Loans secured by farmland (including farm residential and other improvements)		
	Bil	Mil	Thou	Bil	Mil	Thou
	1. Estimated interest and fee income (July 1 of previous year through June 30 of current year)					
2. Estimated charge-offs net of recoveries (July 1 of previous year through June 30 of current year)						

Dated: May 14, 1992.

Joe M. Cleaver,
 Executive Secretary, Federal Financial
 Institutions Examination Council.

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