SURVEY OF TERMS OF BUSINESS LENDING

INSTRUCTIONS

Purpose

The Federal Reserve System uses data from this survey to measure the cost of business borrowing from U.S.-chartered banks and U.S. branches and agencies of non-U.S. (foreign) banks for analysis of developments in business credit markets.

Reporting Burden

Public reporting burden for this collection of information is estimated to average 4 hours per response, including the time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0061), Washington, DC 20503.

Survey Scope

This survey covers commercial and industrial (C&I) loans to U.S. addressees when funds are advanced to borrowers during the report period. The report period covers the first full business week of February, May, August, and November.

For U.S. commercial banks: The definition of "commercial and industrial loans" corresponds to that used for Item 4 of Schedule RC-C, Part I, of the quarterly Report of Condition (FFIEC 031&041). Include all such C&I loans to U.S. addressees made during the report period.

For FFIEC 031 and 041 reporters, C&I loans to U.S. addressees are reported in Item 4.a of Schedule RC-C, Part I. For banks with foreign offices (FFIEC 031 reporters), include all such loans that are booked at U.S. (domestic) offices of the reporting bank (Column B of the FFIEC 031) as well as at non-U.S. offices, whether in the Bahamas, the Cayman Islands, or other locations, for which records are maintained at U.S. offices.

For U.S. branches and agencies of non-U.S. (foreign) banks: The definition of "commercial and industrial loans" corresponds to that used for Item 4 of Schedule C, Part I, of the quarterly Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002). Include all such C&I loans to U.S. addressees made during the report period by the respondent U.S. branch or agency (excluding those held in its IBF) (Item 4.a of Schedule C, Column A minus Column B).

"U.S. addressee" encompasses borrowers domiciled in the fifty states of the United States, the District of Columbia, or U.S. territories and possessions, including U.S. offices or subsidiaries of non-U.S. (foreign) businesses. For further detail, please refer to the Glossary entry for "domicile" in the instructions for the quarterly condition report (FFIEC 031&041 or FFIEC 002).

Include:

- New loans, takedowns under revolving credit agreements, notes written under credit lines, and renewals. Renewals include new loans under revolving credit agreements that roll over earlier loans, including conversions of revolving credits into term loans.
- Loans disbursed *during* the report period, even if the loans are not entered onto your institution's books or loan record system until after the report period.
- Your institution's portion of loan participations and syndications. (See the glossary entry for syndications in the instructions for the quarterly condition report.)

Exclude:

- Loans denominated in non-U.S. currencies.
- Loans of less than $1,000.
- Loans disbursed *before* the report period that are entered onto your institution's books or loan record system during the report period.
- Purchased loans and open market paper, such as commercial paper and acceptances, and factored loans (that is, purchased accounts receivable).
- Loans made by an international division, international operations subsidiary, or Edge or Agreement subsidiary of your institution.
- Loans made to non-U.S. addressees (business firms domiciled outside of the fifty states of the United States, the District of Columbia, or U.S. territories and possessions).
- Construction and land development loans secured by real estate.
- Loans resulting from unplanned overdrafts to deposit accounts. Note, however, that loans extended as part of a cash management program that would be classified as C&I loans on the quarterly condition report *should be* reported on the survey.
- Existing variable rate loans, on which the rate changes during the survey week reflecting a change in the base rate. For example, an outstanding loan advance that has an interest rate tied to prime should *not* be reported when the prime rate changes during the survey week.

Information to be Reported on Each Loan

Column number:

1. **Date made**. Enter the calendar date the funds reported in column 2 were disbursed, also known as the effective date of the loan. For example, for a loan made on May 3, enter "0503."

   For a renewal of an existing loan, enter the date of the renewal, not the date of the original loan.

   Do *not* report the date the loan was entered onto your institution's books or loan record system if that date differs from the date of disbursement.

2. **Face amount of loan**. Enter the face amount of the loan *in dollars.*

   If the note represents the first advance of a loan agreement or an addition to an existing loan, enter only the amount advanced on the date shown in column 1. A loan advance or takedown refers to the actual drawing of funds by a borrower under a loan commitment agreement.

   If the loan represents a renewal or renegotiation of an existing loan, enter only the amount renewed or renegotiated on the date in column 1.

   If the loan is a participation or syndication, enter only your institution's portion of the loan in this column.

3. **Nominal rate of interest.** Enter the stated nominal rate of interest--*not the effective rate or APR*--on the date that the loan was disbursed (reported in column 1). The stated nominal rate usually is shown in the note or agreement. If the loan amount reported in column 2 is an advance, takedown, or renewal under an existing loan commitment, enter the rate of interest for this advance only. For example, if the stated rate of interest is 50 basis points over prime, the nominal rate of interest reported here should be the prime rate for the day of the takedown plus 50 basis points.

   Report the rate in percent to three decimal places; for example, for a loan made at 8-1/4 percent, enter "8.250."

4. **Frequency with which interest is compounded or paid**. Enter the frequency with which interest is compounded, or the frequency with which interest is paid to the lender, whichever is greater.

Enter	If interest is compounded or paid:
0	Only at maturity
1	Annually
2	Semiannually
4	Quarterly
12	Monthly
24	Semimonthly
52	Weekly
360 or 365	Daily

   For example, if interest is calculated on a simple basis (with no compounding over the period of repayment) and is paid monthly, enter "12" for monthly. Similarly, if interest is calculated on a simple basis and paid quarterly, enter "4" for quarterly.

5. **Base pricing rate.** Indicate the base rate used in determining the rate reported in column 3 by checking the appropriate space. If the loan rate is independent of a base rate, check "other."

   a. **"Prime"** applies when the loan rate is based on your institution's own prime (as reported in the FR 2028S supplement to this report), any other lender's prime rate, a combination of other prime rates, or a publicly reported prime rate.

   b. **"Fed funds"** applies when the loan rate charged is priced relative to the federal funds rate.

   c. **"Other domestic money market"** applies when the loan rate charged is priced relative to the rate on domestic certificates of deposit, commercial paper, bankers acceptances, or any other domestic money market rate (except the federal funds rate or the prime rate as defined above).

   d. **"Foreign money market"** applies when the loan rate charged is priced relative to the London Interbank Offered Rate (LIBOR) or any other non-U.S. (foreign) money market rate.

   e. **"Other"** applies when the loan rate charged is priced relative to any reference rate not detailed above or when the rate is independent of a base rate.

6. **Next date on which the loan rate may be recalculated.** Enter the first date on which the rate on the loan will be recalculated to reflect changes in the base rate, if any.

   For a loan rate that can be recalculated at any time (as with many prime-based loans), enter the date made, as reported in column 1.

   If the interest rate on the loan is fixed for a period less than the maturity of the loan (for example, a loan that matures in 90 days but has a rate that is recalculated every 30 days relative to the 30-day LIBOR), enter the date on which the interest rate can first be recalculated.

   If the interest rate is fixed for the life of the loan, enter the loan's date of maturity, as reported in column 7.

   If the interest rate is fixed and the loan has no stated date of maturity, enter "0."

7. **Maturity date.** Enter either the date of maturity or the date of the final repayment of the loan amount. Enter the year, month, and day on which the loan matures.

   For loans made under a revolving loan facility or other types of commitments, enter the maturity date of the takedown advanced on the date reported in column 1, *not* the date of termination of the commitment.

   For renewals, enter the maturity date of the renewal made on the date reported in column 1, *not* the maturity date of the original loan.

   If a revolving credit is converted to a term loan during the survey week, enter the maturity date of the new term loan.

   For loans with no stated maturity, enter "0" in columns 7 and 9.

8. **Termination options.**

   a. Check "yes" under "Callable" when, according to the terms of the agreement, the lender can call or renegotiate the terms of the loan before maturity. Otherwise, check "no" under "Callable."

      Check "no" if the lender's ability to call or renegotiate the loan is contingent on a change in the status of the borrower (for example, an increase in the borrower's debt/equity ratio).

   b. Check "yes" under "Prepayment penalty" when the borrower must pay a penalty or fee (sometimes called a "breakage fee") in order to repay or reprice the loan before its scheduled maturity or the next scheduled date on which the rate is recalculated (if any). If there is no such fee or penalty, check "no" under "Prepayment penalty."

9. **Number of scheduled repayments over term of loan.** Include the number of scheduled repayments of principal over the term of the loan. *Exclude* interest-only payments.

   For loans made under a revolving loan facility, enter the number of repayments scheduled for the takedown advanced on the date reported in column 1. Do *not* include any payments scheduled for the facility prior to the date reported in column 1.

   For loans with a single scheduled repayment of principal, enter "1."

   If repayments are not explicitly scheduled, enter "0."

   For loans with no stated maturity, enter "0" in columns 7 and 9.

10. **Commitment status.** Commitments are broadly defined to include all official promises to lend that are expressly conveyed, orally or in writing, to the borrower. Commitments generally fall into two categories: formal commitments and informal lines of credit.

    A commitment is defined as a formal agreement, usually evidenced by a binding contract, to lend a specified amount, frequently at a predetermined spread over a specific base rate. It requires that the borrower meet covenants in the contract and pay a fee on the unused credit available. These include revolving credits under which the borrower may draw and repay loans for the duration of the contract.

    A line of credit is defined as an informal arrangement under which the lender agrees to lend within a set credit limit and to quote a rate on demand for a takedown amount and maturity requested by the borrower.

    Authorizations or internal guidance lines, where the customer is not informed of the amount, are *not* to be considered as commitments.

    If the loan was made under a formal or informal commitment so defined, enter *(rounded to thousands of dollars)* the amount of the total commitment (both used and unused) under which this loan was made. If the loan was not made under a formal or informal commitment, enter "0."

    If your institution was part of a syndicate making a larger loan to this borrower or the loan was a participation, the amount of the commitment reported in this column should be only the amount that your institution has agreed to lend.

11. **Loan secured.** Indicate by checking the appropriate space whether the loan is secured by collateral of any kind.

12. **Risk rating.** If your institution assigns internal risk ratings to business loans, enter the numerical designation from the list provided below that most closely matches the definition of the internal rating assigned to this loan. *Do not* enter your institution's own internal risk rating.

    If your institution rates loans, but a particular loan is unrated, or not yet rated, enter "0" for that loan.

    If your institution does not assign internal risk ratings to business loans, either (a) leave this column blank or (b) use the categories presented below to make the assignment.

    The definitions provided here take account of both the characteristics of the borrower and the protections provided in the loan contract. Note that the definitions are intended to characterize ranges of risk; hence the definition of your institution's internal rating for a loan probably will not exactly match any of the provided definitions. Enter the numerical designation that corresponds *most closely* to the internal rating of your institution.

    The risk rating categories provided here are not intended to establish a supervisory standard for the maintenance or reporting of internal risk rating systems.

    Minimal risk (enter "1"). Loans in this category have virtually no chance of resulting in a loss. They would have a level of risk similar to a loan with the following characteristics:

    - The customer has been with your institution for many years and has an excellent credit history.
    - The customer's cash flow is steady and well in excess of required debt repayments plus other fixed charges.
    - The customer has an AA or higher public debt rating.
    - The customer has excellent access to alternative sources of finance at favorable terms.
    - The management is of uniformly high quality and has unquestioned character.
    - The collateral, if required, is cash or cash equivalent and is equal to or exceeds the value of the loan.
    - The guarantor, if required, would achieve approximately this rating if borrowing from your institution.

Low risk (enter "2"). Loans in this category are very unlikely to result in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The customer has an excellent credit history.
- The customer's cash flow is steady and comfortably exceeds required debt repayments plus other fixed charges.
- The customer has a BBB or higher public debt rating.
- The customer has good access to alternative sources of finance at favorable terms.
- The management is of high quality and has unquestioned character.
- The collateral, if required, is sufficiently liquid and has a large enough margin to make very likely the recovery of the full amount of the loan in the event of default.
- The guarantor, if required, would achieve approximately this rating if borrowing from your institution.

Moderate risk (enter "3"). Loans in this category have little chance of resulting in a loss. This category should include the average loan, under average economic conditions, at the typical lender. Loans in this category would have a level of risk similar to a loan with the following characteristics:

- The customer has a good credit history.
- The customer's cash flow may be subject to cyclical conditions, but is adequate to meet required debt repayments plus other fixed charges even after a limited period of losses or in the event of a somewhat lower trend in earnings.
- The customer has limited access to the capital markets.
- The customer has some access to alternative sources of finance at reasonable terms.
- The firm has good management in important positions.
- Collateral, which would usually be required, is sufficiently liquid and has a large enough margin to make likely the recovery of the value of the loan in the event of default.
- The guarantor, if required, would achieve approximately this rating if borrowing from your institution.

Acceptable risk (enter "4"). Loans in this category have a limited chance of resulting in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The customer has only a fair credit rating but no recent credit problems.
- The customer's cash flow is currently adequate to meet required debt repayments, but it may not be sufficient in the event of significant adverse developments.
- The customer does not have access to the capital markets.
- The customer has some limited access to alternative sources of finance possibly at unfavorable terms.
- Some management weakness exists.
- Collateral, which would generally be required, is sufficient to make likely the recovery of the value of the loan in the event of default, but liquidating the collateral may be difficult or expensive.
- The guarantor, if required, would achieve this rating or lower if borrowing from your institution.

Special mention or classified asset (enter "5"). Loans in this category would generally fall into the examination categories: "special mention," "substandard," "doubtful," or "loss." They would primarily be work-out loans, as it is highly unlikely that new loans would fall into this category.

Questions and Answers

Survey Scope

Q1. The survey covers the first full business weeks of February, May, August, and November. Do we report loans made each day?

A. Report loans made only on the days your Federal Reserve Bank asks you to report; depending on the size of your institution, it may negotiate the number of days on which loans made should be reported. Once this determination is made, loans should be reported on consistent days each quarter.

Q2. It is burdensome to eliminate loans of less than $1,000 from our report. May we include them?

A. Yes, you may include loans of less than $1,000 if it is easier for you to do so.

Q3. When is a drawdown under a line of credit a rollover? When should we report such loans on the FR 2028A?

A. A new drawdown under a line of credit that is used to pay off a previous drawdown is a rollover and should be reported. For example, many drawdowns under lines of credit that are priced off of the 30-day LIBOR have a maturity of 30 days. Such drawdowns may be rolled over after 30 days; that is, a new drawdown is used to pay off the maturing drawdown. In this case, the new loan should be reported on the FR 2028A. In contrast, many drawdowns priced off of the prime rate have no stated maturity, and so they do not need to be rolled over.

NOTE: Outstanding prime-based loans should *not* be reported when the prime rate changes. Similarly, *term* loans that reprice from time to time (for example, those priced off of the 30-, 60-, or 90-day LIBOR), are *not* new loans, and so such loans should *not* be reported when they reprice.

Q4. Should we report business credit card loans?

A. In principle, single charges of more than $1,000 should be reported since they are included in C&I loans on the Call Report and the FFIEC 002 *and* they exceed the threshold for inclusion on the FR 2028A. Report single charges that exceed $1,000; do not report outstanding balances.

However, if virtually all business credit card charges at your institution are under the $1,000 threshold and it would be a burden to report the larger ones, you may exclude them.

If you do not know the size of the charges that make up the balance, you may exclude them.

Q5. Should we report business loans disbursed under overdraft facilities?

A. On the quarterly condition report, loans resulting from unintentional overdrafts are excluded from C&I loans (they are reported in other loans), so they should not be reported here. However, loans extended under cash management arrangements that would be included in C&I loans on the quarterly condition report should be reported if they exceed the $1,000 threshold for inclusion on the FR 2028A.

Q6. Loans are posted to our computerized record system with a lag of a few days. Can we report the loans that are posted to our computerized record system during the survey week rather than loans that are disbursed during the survey week?

A. No. The lag between the date of disbursement and the date the loan is posted would lead to errors since some of the reported loans would not have been extended during the survey week. As a result, their terms would not necessarily be similar to those on loans that were extended during the survey week.

Column 1: Date made

Q7. Can we report the date the loan is posted rather than the date the loan was disbursed?

A. No, because then the Federal Reserve would compare the rates charged on the loans to market rates on the days the loans were posted rather than the days the loans were disbursed. Because market rates can move significantly from day to day, this reporting error could lead to errors in the measurement of loan spreads. In addition, for loans with short maturities, this type of misreporting can lead to loans having reported dates of maturity before the reported date that they were made.

Column 3: Nominal rate of interest

Q8. Our institution calculates an effective loan rate for internal purposes. Should we simply report that rate?

A. No, report the stated nominal rate on the loan. The Federal Reserve will calculate effective rates on a consistent basis for all respondents based on the nominal rate and compounding frequency reported on the FR 2028A.

Column 4: Frequency with which interest is compounded or paid

Q9. At our institution interest is sometimes calculated and accrued in an interest receivables account more frequently than the balance of that account is paid off by the borrower. Should the frequency of compounding be reported as the frequency with which interest is accrued in the interest receivables account or the frequency with which the borrower pays the accrued interest?

A. In this case the frequency to report depends on whether interest is charged on the account balance in the interest receivables account. If interest is charged on the account balance, then you should report the frequency with which interest is accrued in the receivables account. If interest is not charged on the account balance, then report the frequency with which the borrower pays the accrued interest.

Column 5: Base pricing rate

Q10. Our institution prices some loans off of our own prime and other loans off another prime rate reported in the financial press. Should the base rate for both types of loan be reported as ”prime”?

A. Yes, report the base rates for both types of loan as ”prime.”

Q11. What base rate should be reported if the loan rate is based on a formula that incorporates more than one base rate and the rates are from different categories? (For example, a loan rate that can be priced off of either the prime rate or the fed funds rate, depending on the level of the two rates.)

A. In this case, the base rate should be reported as ”other.” This situation should not be confused with loans that allow the borrower to choose from a menu of base rates and spreads. In that case, report the base rate chosen by the customer for the particular loan being reported.

Column 6: Next date on which the loan rate may be recalculated

Q12. Rates on some loans at our institution adjust in ways not covered in the instructions. For example, the rates on some loans are tied to the prime rate as of the first day of each month. How should we report the next date on which the loan rate may be recalculated in this case?

A. Generally, report the first date on which the rate to be charged is subject to change. In the example, this date would be the first of the next month after the loan was made.

Column 8: Termination options

Q13. If our institution can call the loan, but only on certain prespecified dates, such as at the end of the year, should the loan be reported as ”callable”?

A. Yes, for the purposes of the survey, a loan is callable if the lender can call or renegotiate the terms of the loan at its discretion, even if that discretion can only be exercised from time to time.

Q14. The terms on some loans made by our institution automatically reset based on changes in the characteristics of the borrower, such as its bond rating or interest coverage ratio. Should such loans be reported as ”callable”?

A. No, such *automatic* resetting of loan terms does not constitute calling or renegotiating the loan.

Q15. Loans at our institution can be called or renegotiated if the borrower violates a loan covenant. Should such loans be reported as ”callable”?

A. No, only loans that can be called or renegotiated solely at the discretion of the lender (although perhaps only at prespecified dates, as discussed in question 13) should be reported as ”callable.”

Q16. At our institution, fixed-rate loans can be prepaid at the borrower’s discretion, but the borrower has to make up the difference between the interest that would have been paid on the loan over its remaining term and the interest that our institution can earn over the same period by investing the amount of the prepayment. Does this arrangement constitute a prepayment fee?

A. Yes, such a loan should be reported as having a prepayment fee.

Column 10: Commitment status

Q17. Sometimes our institution makes loans as part of a participation, and we do not know the commitment status or amount. In such cases, what amount should we report as the amount of the commitment?

A. In this case, enter "0" as the amount of commitment.

Column 11: Loan secured

Q18. On small business loans our institution often requires the principals of the business borrowing the money to provide personal guarantees for repayment. Should these loans be classified as secured?

A. No, the loan should be classified as secured only if it is backed by specific assets.

Q19. Our institution does not consider a loan to be collateralized if the collateral is very small relative to the size of the loan, or if we believe that the collateral is unlikely to be collected in the event of default. Should such loans be classified as secured when reported on the FR 2028A?

A. No, you may use your institution's definition of whether or not a loan is collateralized.

Column 12: Risk rating

Q20. Our institution does not rate loans. Should we nevertheless report risk ratings based on the definitions provided in the instructions?

A. If your institution does not find it excessively burdensome, such ratings would be valued by the Federal Reserve. However, respondents that do not have internal ratings need not provide risk ratings on the FR 2028A.

Q21. Our institutions' internal rating system does not match the ratings provided in the instructions. Can we report our institutions' internal ratings?

A. No. Please use the definitions provided in the instructions. The reported ratings have to be based on a common set of definitions so that the Federal Reserve can understand the meaning of the ratings assigned, calculate average ratings across institutions, and make comparisons of ratings over time.

Q22. The definition of our institution's internal ratings do not line up with the definitions provided in the instructions. How should we translate the ratings?

A. It is inevitable that there be some slippage between the internal ratings of individual lenders and the common definitions used on the FR 2028A. For each internal rating at your institution, report on the FR 2028A the rating provided in the instructions with the definition that matches most closely.

Q23. Our institution reports hundreds of loans each quarter. How can we take the time to judge the riskiness of each of them when preparing our report?

A. It should not be necessary to exercise any judgment when preparing the report. An employee of your institution familiar with your internal risk-rating system should prepare a correspondence, or mapping, from your internal risk ratings to the ratings defined in the instructions. With that correspondence, you can convert the internal ratings into the common ratings without any additional judgment. Of course, if your institution changes the definitions of its internal risk ratings, the correspondence will have to be adjusted. Please check before each survey week to see if the definitions of your internal ratings have changed.

A worksheet is provided for your institution's use in mapping your internal risk ratings to the ratings defined for the FR 2028A.

Q24. Our institution does not rate loans until after they have been made, hence we cannot include this information on the FR 2028A. How should we report risk ratings?

A. If your institution does not have loan risk ratings available at the time of the survey, then it should follow the instructions for institutions that do not rate loans (see the survey instructions and question 20).

Q25. The risk ratings on our loans change over time, reflecting changes in customers' balance sheets and business prospects. Do we need to provide updates?

A. The survey only collects information on ratings when loans are disbursed. Do not provide updated information on loan risk ratings unless the original data reported were in error.

Q26. Our institution's ratings are limited to pass or not pass. How should we map these ratings into the common ratings?

A. In this case, follow the instructions for institutions that do not rate loans (see the survey instructions and question 20).

Q27. How should we rate a loan that is quite risky in terms of the probability of default, but has excellent collateral?

A. The risk rating reported on the FR 2028A should take into account all protections provided in the loan contract. In this case, the loan should be reported as not very risky because the excellent collateral makes it very unlikely that your institution will sustain a loss.

Q28. Our institution's internal risk ratings are for borrowers rather than for loans, and so do not take into account the protections provided by the loan contract. Should we still try to report loan risk ratings?

A. Yes. Since the rating of the customer will generally have a significant effect on the rating of the loan, please report the loan risk rating that most closely corresponds to your institution's internal rating of the borrower. Although this information may not be as precise as it is for institutions that rate loans, it is preferable to having no information at all.

Q29. Our institution occasionally makes loans that have more than one risk rating, for example a better rating for that part of the loan that is secured. How should we report the rating on such a loan?

A. In this case, choose the rating that applies to t he largest part of the loan. If the ratings are split evenly, choose the highest–risk rating.

Risk Rating Worksheet

This worksheet is for a respondent's internal use in mapping its own internal risk ratings to the ratings defined for the FR 2028A. It should be revised if the institution changes its risk ratings. This worksheet should not be submitted to the Federal Reserve Bank.

Respondent Rating(s)	Equivalent FR 2028A rating[1]	
	1	**Minimal risk.** Loans in this category have virtually no chance of resulting in a loss.
	2	**Low risk.** Loans in this category are very unlikely to result in a loss.
	3	**Moderate risk.** Loans in this category have little chance of resulting in a loss. This category should include the average loan, under average economic conditions, at the typical lender.
	4	**Acceptable risk.** Loans in this category have a limited chance of resulting in a loss.
	5	**Special mention or classified asset.** Loans in this category would generally fall into the examination categories: "special mention," "substandard," "doubtful," or "loss." They would primarily be work-out loans, as it is highly unlikely that new loans would fall into this category.

[1] The complete definitions of the rating categories are provided in the instructions.