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2020 Survey of Finance Companies[1]

Robert Adams, Lisa Chen, Michael Chernousov

Introduction

Finance companies represent an important source of debt and lease financing to consumers and businesses. Finance companies are the second-largest category of private suppliers of credit, behind depository institutions (banks, thrifts, and credit unions). Finance companies focus primarily on collateralized loans such as auto, equipment, and real estate loans for both consumers and businesses. In particular, finance companies account for a significant share of consumer motor vehicle loan and lease financing. In addition, while they hold only a modest share of mortgage credit in their portfolio, finance companies account for a significant share of residential mortgage originations. Finally, their portfolios to businesses include credit and leases to finance inventory (including car dealers), accounts receivable, and the acquisition of motor vehicles and equipment.

Finance companies are defined as the companies in which 50 percent or more of assets are held in any of the following types of loans or leases: (1) liens on real estate (real estate loans); (2) loans and leases to sole proprietorships, partnerships, corporations, and other business enterprises (business loans); and (3) loans and leases to households that are not collateralized by real estate (consumer loans). Note that, according to this definition, finance companies do not include commercial banks, cooperative banks, credit unions, investment banks, savings banks, savings and loan institutions, and industrial loan corporations. Nor do they include subsidiaries of these types of companies. However, subsidiaries of a bank holding company, savings and loan holding company, or foreign banking organization may be considered finance companies if they satisfy the above criteria.

[1] We dedicate this article to the previous author, Gregory Elliehausen, who passed away in 2023. Greg was an outstanding colleague, whose knowledge on consumer finance was unsurpassed. Greg is sorely missed. We would also like to thank the following people for their contributions to the project: Brendan Barry, Michael Blume, Hannah Case, Dan Crouthamel, Heather Derbyshire, Jessica Flagg, Melissa Johnson, Bradley Katcher, Susan Kelleher, Melissa Kinney, Haja Sannoh, Adam Steinberg, Rich Wood, and Christina Young.

Overall, finance companies differ from depository institutions in that they only focus on lending and do not provide deposit-related or ancillary services. As a result, finance companies do not have deposits as a source of funding and typically rely on other forms of funding such as notes, bonds, debentures, and nonrecourse debt.

The Federal Reserve produces data on the volume and composition of credit and lease financing provided by the finance company industry and reports these data in the following statistical releases: G.19, "Consumer Credit"; G.20, "Finance Companies"; and Z.1, "Financial Accounts of the United States."[2] The G.19, "Consumer Credit," release measures consumer debt held by different types of lenders. Consumer credit consists of all types of credit that are used by individuals and that are not collateralized by real estate or by specific financial assets (such as stocks and bonds) or used for business purposes. The G.20, "Finance Companies," release analyzes consumer, real estate, and business receivables owned and managed by finance companies. The G.20 release and part of the G.19 release are estimated on a monthly basis using additional survey data from a small sample of finance companies. Data on assets and liabilities of finance companies, including all receivables held, are published in the Z.1, "Financial Accounts of the United States," release on a quarterly basis.

To maintain the quality of its statistics, the Federal Reserve conducts the Census of Finance Companies and Other Lenders and the Survey of Finance Companies every five years (the so-called quinquennial survey). Data from the quinquennial survey are used to benchmark the estimates in the G.19, G.20, and Z.1 releases. This article reports developments in the finance company industry using data from the most recent survey in 2021.[3] In addition to balance sheet information used to benchmark statistical releases, the survey includes questions on respondent income statements that were introduced in 2015 and repeated in the 2021

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[2] The Federal Reserve Statistical Release G.19, "Consumer Credit," is available on the Board's website at https://www.federalreserve.gov/releases/g19/current/default.htm. The G.20, "Finance Companies," release is available at https://www.federalreserve.gov/releases/g20/current/default.htm. The Z.1, "Financial Accounts of the United States," release is available at https://www.federalreserve.gov/releases/z1/ current/default.htm.
[3] As noted in the appendix, while the survey began in 2020, data collection was not completed until 2021 because of COVID-19.

quinquennial survey. Our analysis of this survey data also includes information from a supplemental question on the number of offices.

This quinquennial survey is a two-stage survey. First, we conduct a census of all likely companies that provide financing to individuals and businesses. Second, a survey is conducted of those companies in this census that meet the definition of a finance company.

Besides this voluntary survey, data were supplemented from different sources. First, data were sourced from regulatory filings, especially from publicly traded finance companies. Second, data for real estate finance companies were included from the Mortgage Call Report from the Conference of State Bank Supervisors (CSBS). Further details on the methodology are provided in the appendix.

Summary

Overall, lending by finance companies expanded at a fast clip from 2015 to 2021, with loans and leases increasing 41 percent and total assets growing 35 percent.

The following list highlights several prominent findings from our analysis:

- In 2021, finance companies held over $2.2 trillion in assets and $1.8 trillion in loans and leases.
- Overall, total assets of finance companies were up 35 percent in 2021 relative to 2015. Increases were broad based across multiple lending categories, with exceptional growth in real estate financing. Assets in real estate financing grew 128 percent from 2015 to 2021, but consumer and business finance company assets also showed strong growth, with both growing at almost 30 percent from 2015 to 2021.
- The finance company industry is highly concentrated, with few large firms accounting for a majority of assets, despite increases in industry assets.
- Consumer loans and leases accounted for over 50 percent of total finance company receivables in 2021, while real estate and business lending accounted for the rest. Over 90 percent of finance company financing is secured.

- Firms in the industry are highly specialized. Nearly all finance companies held a majority of their assets in one type of credit—consumer, real estate, or business credit.
- About one-half of consumer lenders' assets consisted of motor vehicle loans and leases, but consumer lenders also held a considerable share of assets in other (nonvehicle) closed-end consumer credit and some real estate.
- By far, most real estate lenders' assets were mortgages on one- to four-family homes, with multifamily or other commercial mortgages constituting the small remaining share. Furthermore, over half of business lenders' assets consisted of equipment loans and leases. Business lenders also provided business motor vehicle–related financing, but that financing accounted for only a relatively small share of assets.
- Finance charges among the consumer, real estate, and business lenders varied significantly in 2021, as in 2015. Despite large differences in revenue and expenses, the operating return on assets (a measure of the efficiency of generating income from assets) was about the same for the three types of lenders, though down somewhat in 2021.

1. Recent Developments: Industry Structure

Overall, concentration in the finance company industry remained high and largely unchanged. As in the banking industry, there are a large number of small finance companies, but most of the finance company industry assets are held by a few large firms. The vast majority—79 percent—of finance companies have assets of less than $10 million, virtually unchanged since 2010 (table 1). These firms held a very small share of aggregate assets in 2021 (about 1 percent). By contrast, less than 5 percent of finance companies have more than $1 billion in assets. However, these companies accounted for over 90 percent of assets in the industry, unchanged at least since 2005.[4]

[4] Table 1 was not produced in the 2000 *Federal Reserve Bulletin* article.

1. Percentage distribution of finance companies, by number of firms and asset size: 2010, 2015, and 2021

	Number of firms (percent)			Aggregate assets (percent)		
Asset size (dollars)	2010	2015	2021	2010	2015	2021
Less than 1 million	44	52	38	1	<.5	<.1
1–10 million	25	30	41	<.5	1	1
10–100 million	24	12	12	3	2	1
100 million–1 billion	5	5	5	4	5	5
1–20 billion	2	1	3	18	21	42
20 billion or greater	<.5	<.5	<.5	74	71	51
Total	100	100	100	100	100	100

Note: Components may not sum to totals because of rounding.
Source: Federal Reserve Board, Survey of Finance Companies.

The changes across asset groups varied little since 2005, and the overall structure of the finance industry remained stable over the past 20 years. The percentage of firms in the smallest three asset size groups declined slightly to 91 percent from 94 percent in 2015 (and 93 percent in 2010) but remained above the 2005 level of 86 percent. As a result, the percentage of firms in the largest three categories increased slightly.

The percentage of total assets for finance companies in the top two categories has not changed significantly since 2010. However, finance companies with assets over $20 billion fell to 51 percent in 2021, and finance companies with assets of $1 billion to $20 billion increased. These changes were mainly the result of several large finance companies leaving the universe of finance companies (for example, through obtaining a bank charter or becoming a subsidiary of a bank).

Finally, the 2020 survey included a question on the number of offices for each finance company. Over half of the responding finance companies have a single office, aligning with the asset size distribution of finance companies, as many are very small. By contrast, many larger

finance companies have significant office networks. Twelve of the 20 finance companies with more than $20 billion in assets have more than 100 offices. In fact, 25 percent have 5 offices or more, 10 percent have 26 or more offices, and 1 percent have more than 490 offices. In another perspective, most finance companies with more than $100 million in assets have more than five offices. The existence of large finance companies with extensive office networks implies that some loan products may profit from local presence.

Some large finance companies do not possess extensive office networks, and they engage in lending and connect with borrowers through their business partners. Notably, most captive finance companies reported that they have a single office. For such lenders, dealerships are the main point of contact for loan origination.

1.1 Finance Company Balance Sheets

Table 2 shows the value of finance company receivables by loan type. The total value of finance company receivables increased to $1.8 trillion in 2021, a 41 percent increase from its level of $1.3 trillion in 2015. Consumer lending, especially consumer motor vehicle financing, represents the largest share of receivables at about $950 billion, over 50 percent of the total, while business and real estate receivables represent just about 28 percent and 20 percent of total receivables, with $518 billion and $363 billion in receivables, respectively.

Since 2015, consumer and business lending expanded at a similar rate, with consumer receivables rising $211 billion, a 29 percent increase, and business receivables rising $113 billion, a 28 percent increase. Meanwhile, real estate receivables increased to $363 billion, a 128 percent increase since 2015.

2. Loan and lease receivables, by type: 2010, 2015, and 2021

	Level (billions of dollars)			Percent change		Share of total assets (percent)		
Asset category	2010	2015	2021	2010–2015	2015–2021	2010	2015	2021
Consumer	820	738	949	-10	29	44	44	42
Motor vehicle loans	277	303	444	9	47	15	18	20
Motor vehicle leases	112	176	251	57	43	6	11	11
Revolving	85	26	29	-69	12	5	2	1
Other	346	233	225	-33	-3	19	14	10
Real estate	244	159	363	-35	128	13	10	16
1–4 family	170	123	321	-28	161	9	7	14
Other	74	36	42	-51	17	4	2	2
Business	408	405	518	-1	28	22	24	23
Motor vehicles	117	104	92	-11	-12	6	6	4
Retail loans	18	15	27	-17	80	1	1	1
Wholesale loans	69	80	54	16	-33	4	5	2
Leases	30	9	11	-70	22	2	1	0
Equipment	204	219	289	7	32	11	13	13
Loans	118	122	137	3	12	6	7	6
Leases	86	97	152	13	57	5	6	7
Other business receivables	86	82	138	-5	68	5	5	6
Total loans and leases	1,472	1,302	1,831	-12	41	79	78	81
Memo: Total assets	1,875	1,680	2,273	-10	35	100	100	100

Note: Components may not sum to totals because of rounding.
Source: Federal Reserve Board, Survey of Finance Companies.

1.1. Consumer Lending

As table 2 indicates, consumer motor vehicle financing represents the largest portion of consumer lending. This financing includes loans and leases originated by large captive finance

companies owned by motor vehicle manufacturers, as well as credit held by independent financial companies and dealer-originated lending ("Buy Here, Pay Here" loans). Independent finance companies and dealer-originated lending focus on the used car market and mainly extend credit to borrowers with lower credit scores.

In 2021, finance companies held $695 billion in motor vehicle financing, of which $444 billion (64 percent) was credit financing and $251 billion (36 percent) was lease financing. Overall, consumer motor vehicle financing increased 45 percent since 2015.

Other consumer credit is another large component of consumer financing provided by finance companies. This category consists mainly of closed-end sales credit for other (nonvehicle) consumer goods, cash loans, and student loans. Finance companies held $225 billion of such credit in 2021, accounting for 10 percent of industry assets and declining 3 percent since 2015.[5] Finally, the industry also held about $29 billion of revolving consumer credit, which was just 1 percent of industry assets.[6]

1.2. Real Estate Lending

Finance companies focus mainly on one- to four-family properties, accounting for almost 90 percent of real estate finance company receivables. As noted, real estate loans grew significantly from 2015 to 2021. This growth, in part, reflects the refinance and house purchase booms in mortgage markets during the first year of the COVID-19 pandemic.

Mortgage originations by finance companies often follow a multistage process.[7] In the first stage, the finance company originates the loan and funds it using a line of credit provided by a

[5] In 2021, respondents to the survey reported student loan balances separately. Finance companies held approximately $131.5 billion in student loans, more than half of other consumer lending. Most student loan balances were held by a small number of finance companies. For comparability to previous surveys, we include student loans in the other consumer loan category.

[6] Historically, finance companies held a significant share of credit card debt; however, their share has dwindled in recent years.

[7] For a detailed description, see You Suk Kim, Steven M. Laufer, Karen Pence, Richard Stanton, and Nancy Wallace (2018), "Liquidity Crises in the Mortgage Market," Finance and Economics Discussion Series 2018-061 (Washington: Board of Governors of the Federal Reserve System, March; revised June 2018), https://doi.org/10.17016/FEDS.2018.016r1.

warehouse lender.[8] In the next stage, the loan is sold to an investor, primarily government-sponsored enterprises such as Fannie Mae and Freddie Mac. Subsequently, the draw on the warehouse line is paid off, and the finance company earns the origination fees. As a result, the finance company can originate a new loan. The method of origination allows finance companies to dramatically increase mortgage originations.

1.3. Business Lending

Finance companies also held a significant amount of business loans in 2021, the majority of which was equipment financing at $289 billion. Business equipment financing includes loans and leases for diverse equipment such as construction equipment, aircraft, farm equipment, railway cars, computers, and office equipment. Leases can be classified as either capital leases or operating leases. Capital leases extend over most of the economic life of the asset and are not cancelable by the lessee without penalty, whereas operating leases are short term and are cancelable at the discretion of the lessee. In 2021, 27 percent of business equipment leases were capital leases, and 73 percent were operating leases (not shown).

Motor vehicle financing to businesses accounted for a sizable, though declining, portion of overall business lending. Between 2015 and 2021, motor vehicle loans to businesses contracted 12 percent to $92 billion, driven by a 33 percent decline to $54 billion in 2021 in wholesale loans financing dealer inventories of commercial and light motor vehicles for sale. By contrast, retail business motor vehicle loans increased 80 percent to $27 billion, while leases increased 22 percent to $11 billion over the period.

1.4. Finance Company Funding

From 2015 through 2021, finance companies relied heavily on nonrecourse debt associated with structured financing activities and notes, bonds, and debentures to fund their lending activities (table 3). Together, these types of funding totaled over $1 trillion (or about 47 percent of total assets). Finance companies became less reliant on commercial paper for funding, which has decreased from 5 percent of total liabilities to a mere 3 percent in 2021. By

[8] Mortgage brokers are not included in the scope of finance companies.

contrast, finance companies became more reliant on bank loans, which now represent 12 percent of total liabilities in 2021, an increase from 5 percent in 2010. Finally, equity capital, or net worth, is another source of funding. Together with other liabilities, capital provides about 30 percent of funding, up from 25 percent in 2015.

3. Liabilities and net worth of finance companies: 2010, 2015, and 2021

	Level (billions of dollars)			Percent change		Share of total assets (percent)		
Liability category or net worth	2010	2015	2021	2010–2015	2015–2021	2010	2015	2021
Commercial paper	99	67	57	-32	-15	5	4	3
Bank loans	92	156	271	70	74	5	9	12
Notes, bonds, debentures, and other debt	1,078	890	1,074	-17	21	57	53	47
Debt due to parent company	181	157	167	-13	6	10	9	7
Other liabilities	192	190	319	-1	68	10	11	14
Total liabilities	1,642	1,460	1,888	-11	29	88	87	83
Net worth	233	220	384	-6	75	12	13	17
Total liabilities and net worth	1,875	1,680	2,273	-10	35	100	100	100

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

1.5. A Closer Look at Specialized Types of Finance Companies

While the industry as a whole provides a wide range of products, the vast majority of finance companies focus in one specialized type of lending. We define specialization as having 50 percent or more of assets in consumer, real estate, or business loans and leases.[9] In 2021, 53 percent of finance companies were consumer lending specialists, 34 percent were real estate lending specialists, and 11 percent were business lending specialists.

Overall, specialist finance companies hold well over one-half of their assets in their specialty type of financing. As shown in table 4, consumer lending specialists held 83 percent of assets in consumer loans and leases in 2021, up from 79 percent in 2015. By comparison, only 6 percent of these lenders' assets were in business loans and leases in 2021, down from 10 percent in 2015. Similarly, real estate specialist finance companies held 69 percent of assets in real estate loans and leases in 2021, with non-real-estate loans accounting for less than 1.5 percent of the total assets of these companies and the remaining 30 percent consisting of cash and all other assets. Finally, business financing specialists held 73 percent of their assets in business financing, which accounted for nearly all lending made by these firms.

[9] The 2010 and 2015 censuses defined specialization in the same way, while respondents defined their own specialization in the 2005 Census of Finance Companies and Other Lenders.

4. Asset shares, by type of financing and specialization of lender: 2010, 2015, and 2021

Type of financing	Share of total assets (percent) 2010	2015	2021
Consumer lender			
Consumer	79	79	83
Real estate	4	1	1
Business	8	10	6
Total loans and leases	90	90	89
Real estate lender			
Consumer	16	2	<.5
Real estate	59	74	69
Business	7	2	1
Total loans and leases	82	78	69
Business lender			
Consumer	8	2	1
Real estate	9	1	<.5
Business	49	84	73
Total loans and leases	66	86	74

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

Within the broad lending specialization categories, there is evidence of specialization in subcategories. Perhaps most notably, there are systematic differences in consumer auto lending between captive and independent finance companies. While captive finance companies specialize in new car financing for prime consumers, independent finance companies focus more on used car financing for nonprime consumers.[10] Indeed, in 2021, 65 percent of all auto loan originations by captive finance companies were to prime borrowers, 20 percent were to near-prime borrowers, and 15 percent were to subprime borrowers. These percentages were broadly unchanged since 2010. By contrast, for independent finance

[10] Prime borrowers are consumers with a credit rating over 720, subprime with credit rating below 650, and near-prime greater than 650 and less than 720.

companies, a third of total auto loan originations in 2021 were to prime borrowers, with the remaining two-thirds of originations split roughly equally between subprime and near-prime borrowers.[11] Additionally, 27 percent of all auto originations by captive finance companies were for used cars, compared with 90 percent for independent finance companies.

1.5.1. Distribution of Firms, by Asset Size and Specialization

Table 5, which displays the distribution of finance companies by asset size and lender specialization, shows that most nonbusiness finance companies had less than $10 million in assets in 2021. By specialization, consumer lenders had the largest share of small firms, with over 90 percent of these firms having less than $10 million in assets. By contrast, for business lenders, small firms accounted for a somewhat lower percentage of total business assets: Only 39 percent of business lenders held less than $10 million in assets in 2021, down from 60 percent in 2015.

5. Percentage distribution of finance companies, by asset size and specialization of lender: 2021

	Type of finance company		
Asset size (dollars)	Consumer	Real estate	Business
Less than 1 million	46	32	17
1–10 million	45	41	22
10–100 million	6	15	30
100 million–1 billion	2	8	17
1–20 billion	1	4	13
20 billion or greater	1	<.5	1
Total	100	100	100

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

Furthermore, 14 percent of finance companies specializing in business financing held assets of more than $1 billion, more than double the percentage in 2015. The percent of large finance

[11] These values are constructed using data from Experian's AutoCount Risk Report.

companies increased for real estate specialists as well, with almost 5 percent holding assets of more than $1 billion.

1.5.2. Balance Sheets for Specialized Lenders

As previously mentioned, almost all finance companies are specialized lenders. Tables 6 and 7 provide greater detail on assets and funding sources by lender specialization in 2021. It should be noted that 90 percent of finance company loans are secured by some form of collateral—be it a vehicle, equipment, or real estate—so that the finance company could more easily recoup losses in the case of default.

As shown in table 6, for consumer financing specialists, motor vehicle loans and leases represented 39 percent and 22 percent of assets in 2021, respectively, while other consumer credit accounted for 19 percent and consisted of various types of closed-end credit, which includes installment cash loans, some nonvehicle sales credit, and small, single-payment loans (principally pawn, payday, and auto title lenders). Revolving consumer credit amounted to just 3 percent of assets. As in 2015, the remaining lending by consumer financing specialists consisted largely of business wholesale motor vehicle loans (5 percent of assets). All other types of non-consumer financing (including business and mortgage types of financing not mentioned above) represented only a very small percentage of assets.

6. Asset shares, by type of finance company: 2021

(Percent of total assets)

	Type of finance company		
Asset category	Consumer	Real estate	Business
Consumer			
Motor vehicle loans	39	<.5	<.5
Motor vehicle leases	22	<.5	<.5
Revolving	3	<.5	<.5
Other	19	<.5	1
Subtotal	83	<.5	1
Real estate			
1–4 family	<.5	62	<.5
Other	1	7	<.5
Subtotal	1	69	<.5
Business			
Motor vehicles	5	<.5	6
Retail loans	1	<.5	2
Wholesale loans	3	<.5	2
Leases	<.5	<.5	1
Equipment	<.5	<.5	46
Loans	<.5	<.5	22
Leases	<.5	<.5	25
Other business receivables	1	<.5	21
Subtotal	6	1	73
Total loans and leases	89	69	74

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

Turning to real estate lending, specialist lenders held mostly household real estate loans on their balance sheets (62 percent of assets) in 2021. Their other real estate holdings, which consisted of multifamily, commercial, and farm real estate loans, represented 7 percent of assets.

Furthermore, our data suggest that nonbank lenders specializing in real estate loans experienced rapid growth in the years between 2015 and 2021 (with real estate assets

increasing over 100 percent), as finance companies continued to grow in mortgage loan originations.[12] One factor contributing to the large increase in real estate receivables held was the overall growth in the industry in recent years. In particular, mortgage originations increased dramatically in 2020, as housing sales increased and refinancings surged because of low interest rates. However, because of relatively lower response rates for finance company mortgage lenders in recent years, we also supplemented the 2021 survey data for real estate finance companies with the Mortgage Call Report data. In addition to the companies that either responded to the survey or whose data came from other publicly available sources, the supplementation allowed us to estimate balance sheet holdings for additional companies that—because of nonresponse—would not be otherwise captured in our data. As the 2021 benchmark estimates were an amalgamation of data derived from survey responses, Mortgage Call Report data, and other publicly available data, they are not directly comparable to the 2015 estimates that mostly relied on survey responses.

Business lending specialists focused primarily on business equipment loans and leases (46 percent of assets). However, their other business receivables—which include loans secured by mobile homes or trailers, factoring the purchase of trade accounts receivable, working capital loans, asset-based financing, and seasonal loans—were also significant at 21 percent of assets. Retail motor vehicle loans and leases were a small share of these lenders' assets (6 percent). The shares of consumer and real estate financing were negligible.

Table 7 shows finance company funding sources by specialization. In general, specialist finance companies rely heavily on debt capital markets, while bank loans and other liabilities also play important roles in funding. Other liabilities include dealer reserves, all tax accruals, short-term certificates of thrift or investment, and all other liabilities.

7. Liability and net worth shares, by type of finance company: 2021

[12] For a detailed description, see Kim, Laufer, Pence, Stanton, and Wallace, "Liquidity Crises in the Mortgage Market," in note 7.

(Percent of total assets)

Liability category or net worth	Type of finance company Consumer	Real estate	Business
Commercial paper	4	2	1
Bank loans	6	28	10
Notes, bonds, debentures, and other debt	63	26	36
Debt due to parent company	6	7	10
Other liabilities	7	17	24
Total liabilities	86	80	81
Net worth	14	20	19
Total liabilities and net worth	100	100	100

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

In addition to these broad funding patterns, table 7 highlights differences in funding sources by specialization. First, consumer lending specialists rely heavily on capital market debt. In 2021, notes, bonds, debentures, and other debt represented 63 percent of assets, while all other types of funding represented no more than 7 percent of assets for these companies. In addition, bank loan funding didnot play a significant role for consumer lenders, accounting for 6 percent of assets. Finally, equity was 14 percent of total assets.

Second, real estate lenders also relied on capital markets for financing but still obtained significant funding from banks. In fact, reliance on bank loans for funding increased since 2015, with 28 percent of funding coming from bank loans. Furthermore, 26 percent of funding came from notes, bonds, and debentures. Finally, parent company debt made up 13 percent of assets. Equity remained stable at 20 percent of total assets.

Third, business lenders relied more on debt capital markets and less on bank loans than consumer lenders, but they also received more funding from their parent company and from other sources. Notes, bonds, debentures, and other debt made up 36 percent of assets, while

bank loans only made up 10 percent. Debt from the parent company is 10 percent of assets, and other liabilities are 24 percent as well.

2. Finance Company Income Statements and Profitability

We next turn to income statements. Relative to 2015, finance charges, which include interest rates and fees, fell from almost $13.70 per $100 of outstanding credit to below $11.30, an almost 18 percent decline that largely reflects the lower interest rates in 2020.

8. Revenue, costs, and profitability of finance companies: 2015 and 2021
Dollars per $100 of outstanding credit

Item	2015	2021
Gross revenue	13.74	11.27
Total operating costs	7.98	7.53
Salaries and wages	2.56	2.50
Loan Losses andadditions to loss reserves	1.83	0.32
Other operating costs	3.60	4.70
Operating income	5.76	3.75
Cost of borrowed funds	2.46	1.22
Before-tax income	3.30	2.53

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

Total operating costs declined slightly. Labor costs fell from $2.56 to $2.50 between 2015 and 2020, while changes in loss reserves fell to $0.32 per $100 of outstanding credit, a decrease of 80 percent. Other operating costs increased from $3.60 to $4.70 per $100 of outstanding credit. Additionally, the cost of borrowed funds was lower in 2021 at about $1.20, compared with $2.50 in 2015.

Similarly, total operating income fell to $3.80 per $100 of outstanding credit, well below its 2015 level and even below levels in previous surveys from the 1980s. Before-tax income was also much lower compared with 2015 and previous surveys. In 2021, before-tax income was $2.50, an almost 24 percent decline from 2015 level

Operating return on assets and before-tax return on assets declined considerably from 2015 levels and were 3 percent and 2 percent, respectively, representing a more than 50 percent decline in returns.

2.1. Income Statements for Specialized Lenders

2.1.1. Finance Charges and Operating Expenses by Specialty

Finance charges differ significantly across the different specialized finance companies. As shown in table 9, finance charges of mortgage specialist lenders, at $19 per $100 of outstanding credit, were basically double those of both consumer and business specialist lenders, which reported finance charges of about $9 and $10 per $100 of outstanding credit, respectively.

9. Revenue, costs, and profitability, by type of finance company: 2021

Item	Type of finance company		
	Consumer	Real estate	Business
	A. Dollars per $100 of outstanding credit		
Gross revenue	8.91	19.19	10.35
Total operating costs	5.98	13.01	6.69
Salaries and wages	1.00	7.98	1.57
Losses/additions to loss reserves	0.55	0.02	0.04
Other operating costs	4.43	5.01	5.08
Operating income	2.92	6.19	3.66
Cost of borrowed funds	1.06	1.14	1.64
Before-tax income	1.87	5.04	2.02
	B. Percent of gross revenue		
Gross revenue	100	100	100
Total operating costs	67	68	65
Salaries and wages	11	42	15
Losses/additions to loss reserves	6	<.5	<.5
Other operating costs	50	26	49
Operating income	33	32	35
Cost of borrowed funds	12	6	16
Before-tax income	21	26	20
	C. Rate of return		
Operating return on assets	3	4	3
Before-tax return on assets	2	3	1

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

However, operating costs for real estate lenders were also high, in part due to the higher labor costs. Salaries and wages (about $8 per $100 of outstanding credit) accounted for 42 percent of real estate lenders' finance charges and may be attributed at least in part to the labor-

intensive, comprehensive underwriting process and extensive documentation requirements for mortgage loans. Labor costs for consumer and business lenders were much lower at $1 and $1.60 per $100, respectively.

By contrast, loan losses and additions to loss reserves for real estate lenders were very low at $0.02 per $100 in 2021, an indication of strict credit standards and comprehensive underwriting. Business lenders' loan losses and additions to loss reserves were low as well at $0.04 per $100, as business equipment loans and leases originated by business lenders are generally secured by the equipment that is being financed.

Compared with real estate and business lenders, consumer lenders reported much higher loan losses and additions to loss reserves at about $0.55 per $100. The higher loan provisioning for these lenders likely reflects several factors. First, while motor vehicles represent a substantial portion of their lending that is secured, many of these lenders focus on riskier auto loans. Second, the consumer lenders also provide personal finance and other nonvehicle closed-end installment loans that also may be unsecured. Furthermore, consumer lenders that provide single-payment loans—that is, pawn, payday, or auto title loans—tend to focus on often-underserved segments of borrowers with riskier credit profiles.

These differences are also apparent when we further parse specialist finance companies by total assets (not shown). For example, smaller consumer-specialized lenders with less than $1 billion in assets had finance charges of about $37 per $100 of outstanding credit (3 times that of large consumer specialists) and reserves of over $14 per $100 (over 10 times the average of all finance companies and 20 times higher than consumer finance companies with over $1 billion in assets)—a clear indication that these finance companies are servicing riskier loans. Similarly, real estate specialists also earn higher finance charges and have slightly higher reserves, indicating that they too focus on borrowers with lower credit scores. In 2021, finance charges for real estate specialists fell slightly from the 2015 levels. Finally, business specialist income statements did not differ substantially by asset size.

2.1.2. Funding Costs

As table 9 shows, funding costs across the three specialties did not differ much in 2021. Business lenders had the highest funding costs at $1.64 per $100, while consumer and real estate lenders had lower funding costs at $1.06 and $1.14 per $100, respectively. Funding costs decreased substantially since 2015, with the overall funding costs in 2021 being nearly half of 2015 levels.

2.1.3. Profitability

As seen in table 9, gross revenue and before-tax income continued to differ dramatically across specialists, as both consumer and business specialists earned about half as much as real estate specialists. In 2021, real estate specialists earned just over $5 per $100 of outstanding credit in before-tax income, while both consumer and business specialists earned about $2 per $100 of outstanding credit in before-tax income. For finance companies with less than $1 billion in assets, these trends were even starker. Real estate specialists earned $8 per $100 of outstanding credit in before-tax income, while consumer and business specialists earned only $4 and $2 per $100 of outstanding credit in before-tax income, respectively. Furthermore, operating returns to assets for smaller consumer finance companies with less than $1 billion in assets were almost double that for large consumer finance companies and 50 percent higher than for small real estate finance companies (not shown).

3. A Closer Look at Consumer Lenders: Auto Lenders and Personal Loan Companies

This section takes a closer look at two different types of consumer lenders: auto lenders and personal loan companies.

Auto lenders, defined here as consumer lenders that have more than 50 percent of assets in consumer motor vehicle loans and leases, include not only the captive finance companies owned by vehicle manufacturers but also independent finance companies. Captive finance companies primarily provide credit for new vehicle purchases by prime borrowers at dealers. Independent finance companies focus more on used car purchases. As mentioned earlier, vehicle loans are typically secured by the vehicle purchased.

By contrast, personal loans are closed-end—and often unsecured—installment cash loans, which are often extended by companies that operate under state small-loan laws. We define personal loan companies as consumer lenders that have more than 50 percent of assets in other (nonvehicle) consumer credit and that do not make pawn, payday, or auto title loans. These companies ordinarily do not offer single-payment loans. Lenders specializing in student loans or mobile-home loans are also not included. Some of these companies may have significant shares of nonvehicle sales financing such as consumer durable financing. Such firms have traditionally also made direct cash loans, but these loans have declined over time as consumers opt to use revolving credit (for example, credit cards) instead.

As stated before, most consumer finance companies focus on auto purchase financing. In 2021, 29 percent of consumer finance companies were auto specialists, while 25 percent were personal loan specialists. Most of these finance companies are very small. Eighty-one percent of auto lending specialists had $100 million or less in assets in 2021, while 91 percent of personal loan companies had $100 million or less in assets. Eleven percent of auto lenders had assets of more than $1 billion, and 2 percent of personal loan companies had more than $1 billion in assets.

10. Revenue, costs, and profitability of auto lenders and personal loan companies: 2021

Item	Type of consumer installment lender	
	Auto lender	Personal loan company
	A. Dollars per $100 of outstanding credit	
Gross revenue	7.92	17.67
Total operating costs	5.47	14.23
Salaries and wages	0.48	3.86
Losses/additions to loss reserves	0.17	4.09
Other operating costs	4.83	6.28
Operating income	2.45	3.44
Cost of borrowed funds	0.85	1.89
Before-tax income	1.60	1.55
	B. Percent of gross revenue	
Gross revenue	100	100
Total operating costs	69	81
Salaries and wages	6	22
Losses/additions to loss reserves	2	23
Other operating costs	61	36
Operating income	31	19
Cost of borrowed funds	11	11
Before-tax income	20	9
	C. Rate of return	
Operating return on assets	2	3
Before-tax return on assets	2	2

Note: Components may not sum to totals because of rounding.

Source: Federal Reserve Board, Survey of Finance Companies.

As shown in table 10, finance charges for auto lenders, at $7.92 per $100 of outstanding credit, were about one-half the level of finance changes for personal loan companies, which stood at $17.67 per $100 of outstanding credit. Both charges were down considerably from the 2015 levels of $14.65 and $29.20, respectively. The decrease in finance charges in 2021 can be attributed, in part, to a greater focus on lending to consumers with good credit and, potentially, waning demand for large purchases at the beginning of the pandemic.

Overall operating costs fell for both types of lenders, down to $5.47 and $14.23 per $100 of outstanding credit for auto and personal finance companies, respectively. Operating costs were systematically higher at personal loan finance companies than auto lenders in 2021 as well, as personal finance companies have much higher labor costs and loss reserves. In 2021, salaries and wages and loss reserves were $3.86 and $4.09 per $100 of outstanding credit, respectively, at personal loan companies, while salaries and wages and loss reserves were only $0.48 and $0.17 per $100 of outstanding credit, respectively, at auto lenders. These differences reflect in part the focus of personal loan companies versus auto lenders. While personal loan companies provided unsecured credit to predominantly borrowers with low credit scores auto lenders provided secured loans to mostly borrowers with better credit ratings.

4. Recent Trends: Balance Sheets and Lending in 2023

Using the Federal Reserve Statistical Release G.20, "Finance Companies," we update some statistics on finance company receivables through 2023.[13] As noted in the introduction, these updates are estimated on a monthly basis using additional survey data from a small sample of finance companies, in addition to the 2020 quinquennial survey.

Broadly speaking, finance company receivables increased 4 percent from 2021 to 2023. Consumer lending decreased to $922 billion and real estate lending to $332 billion, about a 3 percent and a 11 percent decrease, respectively. The overall increase in finance company

[13] The Federal Reserve Statistical Release G.20, "Finance Companies," uses the quinquennial survey as a benchmark for data releases. The estimates of finance company receivables through 2023 are available on the Board's website at https://www.federalreserve.gov//releases/g20/current/default.htm.

receivables was fueled by a surge in business receivables, which increased to $653 billion, a 26 percent increase.

Changes within each group were also mixed. In consumer lending, the rise in motor vehicle loans of $522 billion, an 18 percent increase, was more than offset by declines in motor vehicle leases and other receivables.[14] Motor vehicle leases decreased to $195 billion, a 22 percent decline, and other consumer receivables decreased to $185 billion, an 18 percent decline.

The real estate receivables decrease was more broad based, mainly due to the focus on single-family homes. While both subcategories in real estate receivables fell about 5 percent, receivables for single-family homes account for the lion's share of the overall real estate financing, declining to $301 billion. Other receivables fell just $2 billion to $40 billion in total.

The increase in business lending was broad based, with increases in all subcategories. Both business motor vehicle and equipment receivables increased dramatically, climbing to $151 billion and $334 billion, representing increases of about 65 percent and 16 percent, respectively.

5. Appendix: Survey Procedures and Data Collection in 2020

The 2020 survey is the most recent of the five-year benchmark surveys on the finance company industry by the Board of Governors of the Federal Reserve System. It's part of the continuing effort to measure the nonbank financial institutions that supply credit or lease financing to U.S. households and businesses.

The first stage of this two-part survey, the Census of Finance Companies and Other Lenders (CFC), was officially launched in late October 2020. The subsequent part, the Survey of Finance Companies (SFC), was launched one year later in October 2021. As in the past, respondents had the choice of the online option as well as using the paper form mailed to them. QR codes were made available on the paper forms as a measure to improve accessibility from likely

[14] Both captive and independent finance company originations increased through 2023.

mobile device users. A fillable Portable Document Format (PDF) form was developed and adopted for the SFC to encourage wider participation. Multiple postcard reminders were sent, after each round of mailings to elicit more responses.

Due to the onset of the COVID-19 pandemic in the early part of 2020, the survey was postponed until conditions warranted a launch in the fall. In addition to the typical survey challenges, such as the imperfect sample frame, postal returns, and the reluctance of many companies to participate in a voluntary survey, this round of the benchmark survey also had the unique challenge dealt by the unexpected pandemic. We saw a lower number of initial responses for the CFC, after adjusting for postal returns, when compared to the two benchmark survey collections in the past decade. Limited anecdotal evidence collected as part of the nonresponse follow-up suggests that some business operations were affected by the pandemic with reduced loan holdings and business closings. Additionally, COVID-19 precautions and remote working arrangements negatively affected the ability of our staff to speak with a live person. Aside from the pandemic's effect, as in previous surveys, maintaining and improving the participation rate remains a high priority for future surveys.

The target population remained the same since 2015. For the purposes of this survey, it is the set of domestically operated finance companies, defined as entities that have at least 50 percent of total assets in loans or leases to consumers or businesses. However, entities cannot be a government agency, a nonprofit organization, a cooperative, a bank, a bank holding company, a credit union, part of the farm credit system, or a real estate investment trust. Structurally, they can be a subsidiary of a bank holding company but not a subsidiary of a bank or a finance company. To mirror the flow of identifying a finance company, several questions on the CFC were organized as a decision tree, rather than asking respondents to self-identify.

Working with a new commercial data vendor, we primarily followed the method of constructing the sample frame, initially adopted in 2010 with some modifications. We limited possible respondents to records in the vendor's database of business entities that were marked as active with a deliverable, valid United States Postal Service carrier route and a phone number. Eight Standard Industrial Classification (SIC) codes were included to capture companies with at least

some financing operation: 593229, 609903, 6141, 6153, 6159, 628203, 735933 and 735959. If a record's primary or one of its secondary SIC codes was 6141, 6153 or 6159, and it was a headquarters, subsidiary, or single location, it was also included. If a record's primary SIC code was 593229, 609903, 628203, 735933 or 735959 and certain requirements were met, then it was included. For records that were marked as branches but otherwise met the SIC code selection criteria, one branch with the largest employee size was kept. This approach also considered entities coded as branches, which typically generated a low yield of in-scope finance companies in the past several survey rounds.

In addition, data collected under the Home Mortgage Disclosure Act were used to supplement the list of mortgage lenders. The intent was to construct a sample frame as broad and comprehensive as possible.

Overall, the CFC was mailed to approximately 26,000 companies to capture basic financial information. Twenty-six percent of the mailings came back as undeliverable, roughly 2 percent higher than what we have seen in the past. This increase might be due to the effect of the pandemic on business operations, the accuracy and timeliness of the information used for preparing the sample frame, or potential problems with postal deliveries. Adjusting for postal returns, the final response rate was about 36 percent, accounting for additional data collected via the nonresponse follow-up. Web responses experienced a boost by 14 percent to 36 percent of all CFC responses, the highest percentage obtained since we adopted the dual platform design in 2010. This result showcased the importance of having surveys available on multiple platforms for versatility, especially when encountering unexpected events like the pandemic.

Outreach attempts were made by Federal Reserve staff members to collect data from 4,000 nonrespondents to the CFC and determine whether any of these observations were finance companies. To select nonrespondents for follow-up, the initial nonresponses after repeated mailings and postcard reminders were first stratified based on their SIC code and their estimated size primarily determined by their sales volume, if available, their employee size, or their loan origination amount. If their estimated size was $1 billion or more, or was unable to

be determined given limited information available, then entities would be selected with certainty for nonresponse follow-up. These constituted roughly 1,000 cases. For observations with smaller sizes, a stratified sample of roughly 3,000 observations with proportional allocation was taken. Within each stratum, systematic sampling was then used to select from a list sorted by company names. This design was to reduce the possibility of selecting similarly named companies that could be potentially related to each other.

Analysis weights were created for companies included in the nonresponse follow-up sample to represent the nonrespondents. We started with a base weight that is the inverse of a company's inclusion probability in the sample. We then adjusted the base weight in a multistage process to account for the following: the probability that some of the nonrespondents to the follow-up were still in business; the probability that the company had at least 50 percent of its assets in loans or leases, given that it was in business; and, finally, the probability that it was an independent finance company, not a subsidiary or a branch of a related finance company. Each follow-up respondent's weight not only constitutes its directly estimated share in the population, but also the share of the nonrespondents to the follow-up that were most similar to the follow-up respondent.

Once determined as a finance company by their response to the CFC, firms were invited to participate in the second part of the five-year benchmark survey and fill out the more detailed SFC form, primarily composed of asset and liability data items on the balance sheet. For the 2020 survey, off-balance-sheet securitization data items were removed to streamline the questionnaire and reflect changes in the industry. The income statement and scale of company operations, initially developed in 2015, were retained. Four new questions were added to gauge the types of consumer credit offered by finance companies and types and amounts of COVID-19 pandemic relief provided, if any.

The SFC was sent to approximately 2,100 finance companies in October 2021 to obtain detailed information as of June 30, 2021.[15] Roughly 5 percent of the mailings returned as undeliverable,

[15] Ideally, the survey would attempt to capture data from 2020. However, delays due to Covid made this impractical.

which doubled the rate for the previous SFC. An additional 9 percent indicated that they no longer met the definition of a finance company. Outreach attempts were again made to contact and collect data from all nonrespondents after rounds of mailings and postcard reminders. In the end, we were able to obtain usable financial information from slightly more than 40 percent of the companies either via their responses or supplemented from the relevant 10-K reports or other administrative data if available.

Supplementation using 10-K reports represented roughly 4 percent of total usable responses, predominantly from companies with assets of $1 billion or more. More than half of the 10-K supplementations were companies specializing in business loans or leases. Similar to what we have seen for the CFC, responses submitted electronically via either the web platform or the fillable PDF again experienced an increase to nearly 60 percent of responses compared to 45 percent five years ago.

We thoroughly reviewed the data that were collected in both the CFC and SFC. More data editing was often needed for the latter survey, which included both a greater number and more complex questions. Historically, some respondents reported responses in dollars instead of in thousands of dollars as requested. This type of reporting error typically required reconciliation against what was filed to the CFC and sometimes follow-ups with respondents to resolve the issue.

At the design stage, we engaged the help of a graphic designer with expertise in user interface and user experience design to amend both the paper form and survey web platform with the goal of minimizing such reporting errors. Despite these efforts, we continued to experience a similar amount of misreporting at 7 percent; hence, more future research and testing would be desirable. Similarly, some responses–especially those returned in the paper form–did not report a balanced balance sheet and some would require follow-up to clarify and correct reporting errors.

Before estimating the universe of finance companies and their holdings, we addressed the issue of missing items as a final step. The income statement section on the SFC form had a relatively high percentage of refusals, with nearly 20 percent of the responses providing no data (so

called income refusals). Questions on scale of operations, types of consumer credit or financing, and COVID-19 pandemic relief were more sparsely answered as well. Imputation was not attempted for these items or for cases of income refusals. For others, wherever feasible, we used a type of randomized hot deck multiple imputation. This method involves creating classes of respondents based on data that are available for all respondents and randomly matching a "donor" respondent who has complete information with a "recipient" respondent. The process was repeated five times to enable estimation of the uncertainty surrounding this imputation.[16]

[16] See Donald B. Rubin (1987), *Multiple Imputation for Nonresponse in Surveys* (New York: Wiley).