

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 7, 1947

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Carpenter

\_\_\_\_\_

**CONFIDENTIAL**

Attached is a draft of a statement with respect to consumer credit legislation prepared by Mr. Parry to accompany the bill on consumer credit. There is also attached a memorandum from Mr. Solomon transmitting the draft of the consumer credit bill prepared in the Legal Division.

**Attachments**



Chairman Eccles

CONFIDENTIAL

April 4, 1947

To: Board of Governors

Subject: Statement on Consumer  
Credit Legislation.

From: Carl E. Parry

CEP

According to my understanding, it is contemplated that the Board will send up to the Chairmen of the appropriate committees of Congress a draft of a Consumer Credit Bill (see Mr. Solomon's memorandum of February 25) together with a prepared statement that would be designed to serve two purposes -- to inform the committees and at the same time, through being given to the press, to inform the public.

Having been directed to prepare a draft of such a statement for consideration of the Board, I submit the attached "Statement on Consumer Credit Legislation." It represents my own conception of about what the Board could and should say, in view of my understanding of the situation, but in preparing it I have taken into account suggestions on an earlier draft that were made by Mr. Vest and Mr. Young.

Within the limitations of previous commitments by the Board, the draft is definitely "on the strong side".

Attachment

Statement on Consumer Credit Legislation

The Board of Governors of the Federal Reserve System has previously recommended to the Congress consideration of whether or not there should be legislation to continue Federal regulation of consumer credit on a permanent basis. With a view to furthering the consideration of this question, the Board transmits herewith to the Banking and Currency Committees of both the Senate and the House of Representatives a draft of a proposed consumer credit bill.

Appropriate legislation to regulate consumer credit, as the proposed bill illustrates, would authorize the Board to keep in force its present Regulation W and to expand or contract the scope of the regulation within statutory limitations. This authority would permit the Board to change from time to time in either direction the basic requirements of the regulation such as those relating to minimum down-payments and the maximum length of instalment contracts. To guide such changes, the proposed statutory rule is substantially the same as that governing other powers vested in the Board, namely, that changes in regulations shall be designed to maintain sound credit conditions. This means, in general terms, that changes shall be made only at such times, in such direction, and to such extent as the Board shall deem to be necessary -- in the public interest -- in order to prevent or reduce excessive expansion or excessive contraction of consumer credit and thereby to promote economic stability.

Both the danger and the consequences of excessive expansion and contraction of consumer credit had already been made evident by experience before the war. Excessive expansion had been a factor in causing the major boom of 1929 and the minor boom of 1937, when the volume of consumer instalment financing was much less than it is at the present time and billions of dollars less than it is likely to become within a few more years. Too much of such financing during the

upswings in business had left so much consumer debt to be paid off during the succeeding downswings, the one running into 1933 and the other into 1938, that the use of consumer income to pay debt instead of to buy goods accentuated and prolonged the business depression. In both instances of expansion, voluntary efforts made by sales finance companies and banks to keep down-payments from becoming too small and repayment periods from becoming too long had been defeated by aggressive competition from non-cooperating sources.

If regulation of the type now in effect should be allowed to lapse, the same sequence is likely to recur, sooner or later and time and again. Within a short period, such as a year or two, the present standards of credit-granting will probably fall back -- under competitive influences -- to what they were in 1941, or even further. Required down-payments, for example, are likely to go down, suddenly or gradually, to as little as 25 per cent for automobiles and as little as 10 per cent for household appliances. Typical maturities are likely to lengthen, first to 18 months, then to 24, and eventually in some cases to as long as 30 or 36 months. In consequence, heavy indebtedness on the part of millions of families, incurred on "easy terms" during a period of prosperity, will operate to curtail consumer expenditures severely during any succeeding recession in business. This will be felt not only in the consumer durable goods industries but also in other sectors of the economy.

The Board believes that this should not be permitted to happen, either during the next few years or in any later period, and that the proposed legislation could do much to prevent it from happening.

The Board's Regulation W is now based on an Executive Order, issued August 9, 1941, which itself rests on authority vested in the President by the Trading with the Enemy Act of 1917, as amended in 1935 and at other times. The Order was an emergency measure and by its present terms will expire whenever the

President revokes the Order or vacates the Declaration of Emergency dated May 27, 1941.

Up to the present time, the Board and the Federal Reserve Banks have had generally satisfactory cooperation from all interests subject to the regulation, notwithstanding its emergency character, but ever since V-J Day that cooperation has shown signs of weakening. Administration of the regulation is accordingly becoming increasingly difficult. This tendency, in the opinion of the Board, can be remedied only by specific legislation enacted by the Congress.

The proposed legislation, together with this statement of the Board, is designed to bring the question before the Congress at this session. Unless the Congress enacts legislation before this session comes to an end, the Board intends to request the President to relieve the Board of its present responsibility by vacating the Executive Order on which Regulation W now rests.

It is the conviction of the Board that appropriate enabling legislation should be enacted to permit the continuance of consumer credit regulation and that it would be reasonable for the Congress to impose the administrative responsibility for such regulation, as a permanent matter but under suitable safeguards, on the Federal Reserve System.