

6/10/47

CONSUMER CREDIT BILL

The bill would authorize the Board of Governors of the Federal Reserve System to regulate instalment credit. It states the purpose of the regulation to be to prevent, so far as practicable by this means, excessive or untimely fluctuations of such credit and the resulting dangers to the national economy.

Within the field of instalment credit, the Board would be authorized to regulate minimum down payments, maximum loan values, and maximum maturities. This would include the authority to vary such terms from time to time and also to select and change from time to time, within prescribed statutory limits, the types of instalment credit to be covered in the regulations. In prescribing such regulations, the Board would be directed to consider the levels and trends of the various kinds of instalment credit, the economic effects of fluctuations therein, and the need for the maintenance of sound credit conditions.

With certain exceptions, the bill would apply generally to both instalment sales and instalment loans, including both loans which are for the purpose of purchasing consumers' durable goods and loans for other consumption purposes. The bill would not apply to any consumer credit that is not in the instalment form, such as charge accounts and single-payment loans. It would exempt instalment credit (1) to finance the construction or purchase of an entire building, (2) to a business enterprise to finance the purchase of goods for resale (i.e., inventories), (3) for other business or agricultural purposes except credit which is for the purpose of financing, or is secured by, consumers' durable goods.

Penalties would be prescribed for violations. The Board would be authorized to require persons subject to regulation to keep appropriate records and make appropriate reports. The Board would be given authority to investigate possible violations and could obtain injunctions against violators.

Under the proposed legislation, regulation would be in about the form and scope effective at present under the Board's Regulation W. Such regulation, which of course would be subject to change from time to time, would, with appropriate exceptions to provide for administrative flexibility, prescribe maximum maturities for all types of instalment credit and would in addition prescribe minimum down payments for instalment credit to finance the purchase of important categories of consumers' durable goods.

Generally speaking, the instalment terms now prescribed by Regulation W, which are subject to change from time to time, call for down payments of at least one-third and maturities of not more than 15 months.

June 10, 1947

Scope and Terms of Present Regulation W

1. Regulation W, in its present form, relates to consumer instalment credit, including both instalment sales and instalment loans. It does not apply to charge accounts or single-payment loans.
2. The maximum maturity of an instalment contract is limited to 15 months. This limitation applies whether the credit is an instalment sale or instalment loan. It applies whether the instalment loan is for purchasing a consumers' durable good or is for some other consumption purpose.
3. For instalment sales of important categories of consumers' durable goods, there is a down payment requirement as well as a maturity requirement. There are 12 such categories as follows:

33-1/3 per cent down and 15 months to pay

Automobiles	Dishwashers
Refrigerators	Air conditioners
Cooking stoves and ranges	Radios and phonographs
Washing machines	Sewing machines
Ironers	Suction cleaners

20 per cent down and 15 months to pay

Furniture	Soft-surfaced floor coverings
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4. For instalment loans to purchase any of these articles the requirements are the same. For an automobile, for example, the credit is limited to two-thirds of the price and the maximum length of the contract is limited to 15 months.
5. Principal Exemptions:
 - A. Any extension of credit over \$2,000.
 - B. Any loan to meet medical, hospital, dental, or funeral expenses.
 - C. (1) Any credit to finance the purchase, construction, or repair of a building;
(2) Any credit to a dealer to purchase goods for resale (i.e., inventories);
(3) Any loan for business or agricultural purposes that is not for purchasing any listed article.
6. Other Items:
 - A. On instalment sales, listed articles priced under \$50 are exempted.
 - B. A maturity of 18 months is permitted, in hardship cases with a Statement of Necessity, for credits to refinance outstanding debts.