

**FEDERAL RESERVE BANK  
OF DALLAS**

Dallas, Texas, September 24, 1941

**INTERPRETATIONS OF REGULATION W—CONSUMER CREDIT**

**To all Banking Institutions, and Others Concerned,  
in the Eleventh Federal Reserve District:**

In our circular letter of September 19, we printed certain interpretations of Regulation W, issued by the Board of Governors of the Federal Reserve System. Additional interpretations are printed below:

56. Inquiry has been received whether section 4(c) prohibits sale of automobile with first monthly instalment of \$65 and remaining 17 monthly instalments of \$23.

Section 4(c) is worded in the alternative, and instalments must either be substantially equal in amount or "be so arranged that no instalment is substantially greater in amount than any preceding instalment." Therefore answer to inquiry is negative.

57. A question has been received regarding the application of Regulation W to a case in which an automobile salesman sells his demonstrator. The question also relates to the purchase of the resulting obligation by the dealer-employer of the salesman.

The dealer-employer in such a case, who presumably is a Registrant as described in section 3 and also familiar with the particular transaction, may not in any event purchase the obligation unless it complies with the requirements of section 4. This is true because no Registrant may knowingly purchase any instalment sale obligation which fails to comply with section 4, regardless of who made the original extension of credit.

The Regulation does not apply to an isolated extension of credit by a person who is not "engaged in the business" as described in section 3(a). However, it is important to note that, whatever the form in which the arrangement may be set up, an automobile salesman's financial interest in his demonstrator may represent a relationship that is substantially different from that of the ordinary automobile ownership. It may have the formal appearance of a purchase of the automobile by the salesman, when actually the demonstrator is in effect the property of the dealer-employer rather than the salesman. In such a case the sale of the demonstrator by the salesman should, for the purposes of the Regulation, be treated like any other sale made by the salesman, i. e. as a sale made by him as agent for the dealer-employer, and hence should comply with the requirements of section 4 regardless of whether the obligation is purchased by the dealer-employer.

58. In view of provisions of section 3(a) (2)(B), bank which discounts an obligation which is subject to the Regulation is not obliged to ascertain whether the original lender is a duly licensed Registrant.
59. The classification "plumbing fixtures designed for household use" does not include water meters.

60. The Board has received the following question relating to Regulation W:

“A purchaser buying a listed article makes a down payment in excess of the amount required by the Regulation. May he be permitted later, in purchasing a second listed article, to apply any part of the down payment on the first article as the required down payment on the purchase of the second article?”

He is not permitted to do so.

61. An inquiry which may be stated as follows has been received under Regulation W:

“The X Electric Company purchases substantial numbers of automobiles for cash and sells them to its salesmen on a monthly payment plan, with payments spread over 12 to 18 months. The X Electric Company does not make such sales to anyone except its salesmen. Is the X Electric Company ‘engaged in the business’ as described in section 3(a)? Must these extensions of credit comply with the down payment and other requirements of the Regulation?”

Both parts of the question should be answered in the affirmative.

62. The Board has received the following inquiries:

“Does the term ‘automobile’ in Group A of Supplement, Regulation W, include automobile engines purchased separately for installation in a used car chassis?”

“Does term ‘mechanical refrigerator,’ item 1, Group C, Supplement, include motor unit replacement, if purchased separately?”

These inquiries raise a general question with respect to the treatment of replacement or repair parts for listed articles. It is to be noted that certain parts are mentioned specifically in the list, as for example, motors for power driven boats, heating units for furnaces, and certain items that are included in Group D(4) and Group E. The Regulation, however, does not treat replacement or repair parts as being included in the list merely by reason of the listing of the complete article, with the consequence that an automobile engine purchased separately would not by inference be classified as a listed article on the ground that automobiles are listed. On the other hand, if the Registrant knows or has reason to know that any purchase is a part of a scheme to acquire a complete listed article by purchasing separate pieces, the Registrant is required to treat the credit extended as if the piece purchased were a listed article.

63. The following question has been received under Regulation W and has been answered in the affirmative:

“Used car has unpaid instalment contract. May dealer pay off unpaid contract, apply the equity in the used car against down payment on new car and finance the difference (assuming it is not more than 66 $\frac{2}{3}$  per cent of the cash price) between the equity and the price of the new car over 18 equal payments?”

64. Inquiries have been received as to applicability of Regulation W to a case where vendor of a listed article requests a prospective purchaser to allow him to install it in prospective purchaser’s home “on trial” or “on approval” for a 60-day period. The prospective purchaser agrees and at end of 60-day period decides to purchase the article. At what time is the sale of the article to be regarded as having been made?

Assuming that the transaction is entered into in good faith and not for the purpose of evasion, the Board is of the opinion that if the prospective purchaser has the unconditional right to return the article to the prospective vendor at any time within the 60-day period, and if the prospective purchaser does not make, and is not obligated to make, a deposit or payment of any kind to the prospective vendor unless and until he informs the prospective vendor that he has decided to purchase the article, the date of sale, for the purpose of Regulation W, may be regarded as the day on which the prospective purchaser informs the vendor of his decision to purchase the article.

65. Regulation W does not require a Registrant to obtain down payment or otherwise to increase amount received through previous payment when a three months credit conforming to section 6(f) is renewed or revised in good faith as described in W-49.

66. Pressure cookers are not included in any of the classifications of listed articles.
67. The classification of "mechanical refrigerators" does not include an electrically operated portable unit for cooling and dispensing drinking water.
68. An inquiry has been received regarding an instalment sale contract of a musical instrument, which states a single sum in payment of purchase price of instrument and lessons in playing thereof, and carrying charge on deferred balance. In such case must amount allocable to lessons be regarded as being for services rendered in connection with acquisition of article under section 4(f) (2) ?

Any sum actually allocated to music lessons is of course not to be regarded as the cost of services rendered in connection with acquisition of musical instruments.

69. Obligor who has received credit conforming to section 6(j) and who subsequently received instalment sale credit on listed article priced at \$100 is not required to make down payment on original purchase. The 6(j) credit remains a separate transaction.
70. Question has been asked whether section 9(b) of Regulation W permits first instalment to fall due 45 days after date of contract or note, assuming such date is date of sale, even though the result is that the obligation may show on its face that credit was extended for 18-1/2 months.

Answer is in the affirmative.

71. A question which may be stated as follows has been received under Regulation W :

"A Registrant sells a \$100 radio, receiving in trade or exchange a used radio which he has previously sold to the customer and on which the customer owes the Registrant an unpaid balance. The Registrant allows the customer \$15 for his equity. What is the basic price, the maximum credit value and the down payment requirement of the new radio? How should the maximum maturity be calculated for such a transaction?"

Under Part 2 of the Supplement, the basis price of the new radio would be \$85 (\$100 minus the \$15 equity traded in by the customer). Hence the maximum credit value would be \$68 (80% of \$85) and the required down payment would be \$17, which would be in addition to the \$15 allowance for the customer's equity. The maximum maturity would be 18 months from the date of the sale of the \$100 radio, with the usual option under section 9(b) of making the 15 day adjustment permitted by that section for calculating the maximum maturity.

72. Inquiries have been received regarding cases in which the original instalment purchaser of an automobile or other listed article arranges the transfer of his equity to another purchaser, the transfer of the equity being arranged directly between the parties and not by or through any dealer or other Registrant, and the Registrant holding the obligation is in effect asked to recognize or approve the transfer.

The Board is of the opinion that such a transfer of the automobile or other listed article subject to the original debt and lien may be made without restriction under the Regulation provided the original purchaser (who is not a Registrant) remains liable on the contract and there is no change in the contract except the addition of the signature of the new purchaser. However, if the original purchaser is released from his obligation under the contract, or if the terms of the contract are altered except by including the subsequent purchaser, or if a new contract is entered into between the Registrant and the subsequent purchaser, the same requirements would apply as if the Registrant were making an ordinary instalment sale of the listed article. In such event, if the listed article involved was, for example, an automobile and the subsequent purchaser agreed to pay \$600 for the automobile, the Registrant could not extend credit to him in excess of \$400.

It may be noted, of course, that under section 8(a) of the Regulation the requirements stated in the preceding paragraph would not apply to action taken by the Registrant in good faith (1) with respect to any obligation of a member of the armed forces of the United States incurred prior to his induction into the service, or (2) for the Registrant's own protection in connection with any obligation which is in default and the subject of bona fide collection effort by the Registrant.

73. With reference to classification "cooking stoves and ranges with less than seven heating surfaces" a warmer drawer in an electric range is not considered a heating surface.
74. Refrigerators are not "seasonal goods" within the meaning of section 4(d) or 5(c)(3).
75. Taxes and fees payable as prerequisite to obtaining license plates in name of purchaser of automobile or motorcycle may be included in purchase price of automobile or motorcycle under section 4(f)(2) and under parts 2, 3(a), and 3(b) of Supplement.

From time to time, as interpretations are made by the Board, they will be printed in this form and mailed to you by this bank.

Yours very truly,

R. R. GILBERT

President

**ADDITIONAL COPIES OF THIS CIRCULAR WILL BE FURNISHED UPON REQUEST**