

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, October 3, 1941

INTERPRETATIONS OF REGULATION W—CONSUMER CREDIT

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

In previous circulars we have printed certain interpretations of Regulation W issued by the Board of Governors of the Federal Reserve System. Additional interpretations are printed below:

76. If a new automobile is sold at a discount, and the "bona fide cash purchase price" is therefore less than the sum of items 1 through 4 of Part 3(a) of the Supplement, the maximum credit value is limited to $66\frac{2}{3}$ per cent of the "bona fide cash purchase price."
77. An inquiry which may be stated as follows has been received under section 8(f) of Regulation W:

"A purchaser buys an automobile costing \$600 and tenders his old car, which is worth \$200, as the required down payment. Purchaser owed a finance company \$100 on the old car, which was part of its unpaid purchase price, but the purchaser was able to make arrangements with the finance company whereby the automobile was released as collateral to this loan and there was substituted therefor miscellaneous collateral other than listed articles and he was able to obtain a clear title for the purpose of making a trade-in. Assuming in each case that the Registrant involved knows or has reason to know of the \$100 transaction: (1) May a finance company, other than the one which extended credit on the old car, lend $66\frac{2}{3}$ per cent of the purchase price of the new car when the loan is secured by the new car? (2) May the finance company which extended credit on the old car make a separate loan to the same individual equal to $\frac{2}{3}$ of the purchase price of the new car when the collateral for the loan is the new car? (3) May a finance company make two loans to the purchaser, one secured by the new car equal to $\frac{2}{3}$ of its purchase price, the other secured by miscellaneous collateral other than listed articles, to pay the \$100 which the purchaser owes the other finance company."

Section 8(f) in effect prohibits extensions of instalment sale credit under section 4, or of secured instalment loan credit under section 5(a), in any case in which "the Registrant making such extension of instalment credit knows or has reason to know that there is, or that there is to be, any other extension of credit in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchase beyond the maximum credit value of such article."

The down payment in the present case is represented by the old car, which is not sufficient for this purpose unless taken at its full value without regard to the amounts still owed by the customer for its purchase. The down payment therefore includes the \$100 of credit which is outstanding for the purchase of the old car, and the result is

that this \$100 brings the total credit in connection with the transaction beyond the maximum credit value of the new car. Accordingly, when, as stated in the question, the Registrant knows or has reason to know of these facts, the extension of credit is prohibited in each of the three cases presented in the question.

78. The inclusion or exclusion of articles under the classification "ice refrigerators," which is a part of Group D-7 "new household furniture" in the Supplement, is determined by the same general principles that have been applied in connection with "mechanical refrigerators." Refrigerators of less than 12 cubic feet rated capacity are included, no matter what the use to which they are to be put, unless their design and construction is such that they are clearly usable only for commercial purposes.
79. The phrase "bona fide cash purchase price" in section 6(b) means the bona fide cash purchase price of the article and accessories purchased, including any sales taxes thereon and any bona fide delivery and installation charges.
80. An inquiry has been received regarding the applicability of Regulation W to a special type of lease contract covering an automobile. The lessor is a dealer in automobiles and the lessee is a contractor who has a cost-plus-a-fixed-fee contract with the War Department. The lease calls for monthly payments of 10% of the purchase price of the automobile and provides that when 10 payments have been made, title to the automobile will vest in the Government with the option in the Government at any time to pay the unpaid balance and take title to the automobile. The contract further provides that the automobile may be transferred to another construction project and in that event the lessor must enter into a new lease agreement with the holder of the construction contract at the new location, payments made under the first lease being credited to the second lease. The contract does not provide any means whereby the lessee can acquire title to the automobile.

The Board is of the opinion that in such circumstances the lease is not subject to the requirements of the Regulation.

81. The classification "radio receiving sets, phonographs, or combinations" does not include coin-operated phonographs.
82. The classification "new household furniture" includes a prefabricated fireplace, sold as a complete unit, that is decorative only and not usable for heating purposes.
83. Section 3(a) (2) (B) permits purchase or discount of 24-month note if note was signed after September 1 pursuant to pre-September commitment.
Similarly, where contractor and home owner have made pre-September contract for repairs to be financed by a bank, bank may finance the repairs on terms provided in contract even though request for financing is not presented to bank until after September 1.
84. The Board has received several questions regarding the application of sections 4(f) and 5(c) (1) of Regulation W, which become effective October 1, 1941, and relate to the "Statement of Transaction" required in connection with extension of instalment sale credit or instalment loan credit. The answers are given below:

(1) It is not necessary that all of the information required by section 4(f) or 5(c) (1) be included on a single sheet of paper, but if parts of the information appear on two or more sheets it is necessary that these sheets be attached together, and that copies of all of them be given to the obligor together. The statement referred to in these sections, and the copy required to be given the customer, need not be identical in form.

(2) It is not necessary that the particular terminology used in the Regulation ("bona fide cash purchase price," "deferred balance," and "time balance") be used in the statement of transaction, as long as the statement contains the required information. When the contract is in the form of a lease agreement, such terminology as is applicable to a lease, giving the corresponding information, may be used.

(3) The bona fide cash purchase price of a particular article and accessories, including relevant taxes, may be shown as a total without being itemized into various parts. Although section 4(f) (2) requires itemization of (1) the article, (2) the accessories and (3) the services referred to in the section, the items themselves may be itemized without stating the portion of the total purchase price that relates to each.

Accessories which are standard equipment for the article need not be individually itemized, and a group of accessories which are sold as a single group by the manufacturer may be shown in the statement as a unit.

(4) The itemization for a new automobile follows this same rule, and need not show separately the matters referred to in paragraphs 1 through 4 of Part 3(a) of the Supplement. As indicated above, however, the accessories should be indicated, and so should the relevant services.

(5) In the case of an extension of instalment sale credit subject to section 4 of the Regulation, item 2 under section 4(f) requires that the statement of transaction show the bona fide cash purchase price of the articles—the price at which the seller would sell the article for full cash payment—even though the sale will be made at a “time price” which includes carrying charges.

(6) The information referred to in each of the seven paragraphs of section 4(f) must be set forth, and it is not sufficient that an item of information may be obtained by mathematical derivation from other information in the statement. However, if the interest or finance charge is not included in the face amount of the obligation but is an additional amount calculated pursuant to an arithmetic formula plainly set forth in the statement, paragraphs 5 and 6 do not require this amount to be shown in dollars and cents or to be included in the statement of the time balance.

(7) In any case in which a state law or local regulation requires that sales taxes be shown separately or requires in any other respect more detail than that required by Regulation W, the Regulation does not prohibit such further itemizing.

85. The classification “heating stoves and space heaters designed for household use” does not include gas heating units designed to be suspended from the ceiling and operated with a fan circulator.

From time to time, as additional 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