

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, November 16, 1946

CONSUMER CREDIT
REVISION OF REGULATION W — EFFECTIVE DECEMBER 1, 1946

To The Registrant Addressed:

There is quoted below a statement for the press, issued by the Board of Governors of the Federal Reserve System, for release November 16, 1946.

“Effective December 1, 1946, the Board of Governors has today revised Regulation W by confining it to instalment credit and centering it on purchases of major durable goods. If regulation in the field of consumer credit is to be continued on a peacetime basis, the Board believes that the regulation should in general be in the form and scope of this revision in order to be an effective influence towards stability in this sector of the economy.

This regulation now rests on an executive order of August 9, 1941, which is revocable by the President or by action of Congress. The issue as to whether regulation should or should not be continued in any form is a subject of sharp controversy among various groups affected by it. The Board feels that the issue should be decided by the Congress and that the present revision is an appropriate means of bringing before the Congress the question of whether the executive order should be vacated or whether authority for such regulation should be continued by specific legislation.

In its annual report to Congress last June, the Board recommended that Congress give consideration to the question of whether regulation of consumer credit should be continued on a peacetime basis as a subordinate but contributory factor in the maintenance of economic stability. As the report stated, ‘over the past 30 years consumer instalment financing has come to occupy an important and strategic place in the national economy. Such financing is essential to the mass distribution and consequently to the mass production of consumers’ durable goods. From time to time, however, the expansion and subsequent contraction of consumer credit have gone so far as to accentuate the upswings and downswings of the business cycle. There is no way of preventing such excessive expansion and contraction except governmental regulation of the terms on which consumer credit shall be made available, such as the down payment required on instalment sales or financing and the length of time permissible for instalment contracts.’

The regulation is now revised in the light of the foregoing considerations. Under this revision, the regulation is focused on instalment credit, both instalment sales and instalment loans, including 12 major categories of durable consumers’ goods, which constitute the great dollar bulk of credit subject to the widest expansion and contraction. Charge accounts and single-payment loans, in which fluctuations are comparatively small, are eliminated from the scope of the regulation. The revision effects a substantial simplification of the regulation’s provisions and will make it administratively more workable.

This revision narrows the scope of the regulation to what the Board considers a minimum consistent with the exercise of a stabilizing influence in this area of the

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economy. In this form, the Board believes the regulation can be better understood and its merits and defects better appraised. When present inflationary pressures have subsided, the terms of the regulation would need to be modified further.

The principal changes made by the revision are as follows:

1. The list of consumers' durable goods to which down payment and maturity requirements apply is reduced from 36 categories to 12, the remaining items including automobiles, major household appliances, radios, phonographs, sewing machines, furniture, and soft-surfaced floor coverings, but with an exemption for any article costing less than \$50.00.

2. Restrictions on charge accounts and single-payment loans are eliminated.

3. A uniform maximum maturity of 15 months is established for all new installment credits, whether they arise from sales or loans.

4. The provisions for refinancing, including consolidations with new credits, are simplified, and refinancing credits may have a maximum maturity of 15 months.

5. Except for floor coverings which are transferred to the category calling for a 20 per cent down payment, the items retained have the same down payment as presently prescribed: $33\frac{1}{3}$ per cent for all articles other than furniture which is in the 20 per cent category.

6. Procedural rules are simplified in such matters as the statement covering the transaction and the statement obtained from the borrower. It is no longer required that a statement of the transaction be given to the customer.

7. Minor changes reconcile the new provisions with such requirements as are retained and certain technical sections are simplified.

8. The list of articles to which down payment and maturity requirements apply is as follows:

$33\frac{1}{3}$ per cent down

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

20 per cent down

Furniture	Soft-surfaced floor coverings."
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A reprint of Regulation W in the form effective December 1, 1946, will be forwarded to all Eleventh Federal Reserve District registrants as soon as possible.

This bank or its branches in El Paso, Houston, or San Antonio will be glad to furnish any further information which may be desired concerning the revised regulation.

Yours very truly,

R. R. GILBERT

President