

FEDERAL RESERVE BANK  
OF DALLAS

Dallas, Texas, October 27, 1947

INSTALMENT CREDIT—Termination of Regulation W

**To the Registrant Addressed:**

There is reproduced herein a statement issued by the Board of Governors of the Federal Reserve System in connection with the termination of Regulation W on November 1, 1947.

The views expressed in the Board's statement with regard to the inflationary pressures prevalent at this time and to the policies which should be pursued by lenders and vendors deserve your most careful consideration. The dangers inherent in an undue relaxation of terms on instalment credit under existing and prospective conditions are recognized generally by bankers and businessmen, and various banking and business groups have issued statements urging caution in the extension of instalment credit. The maintenance of sound credit conditions in the coming months and the prevention of undue price advances will require the utmost restraint on the part of consumers who utilize instalment credit, as well as those who provide such credit. It is hoped, therefore, that everyone concerned with consumer instalment credit will give serious consideration to the course of action urged in the statement.

At the request of the Board of Governors a copy of its statement is being mailed to every registrant in this district.

The cooperation which this bank received from registrants in connection with its administration of Regulation W is greatly appreciated.

Yours very truly,

A handwritten signature in cursive script that reads "R. A. Gilbert". The signature is written in dark ink and is positioned above the printed name "President".

President

STATEMENT OF THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
ISSUED OCTOBER 27, 1947  
IN CONNECTION WITH THE TERMINATION OF REGULATION W

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The instalment credit controls exercised by the Board of Governors of the Federal Reserve System under Regulation W, pursuant to Executive Order No. 8843, will cease to be operative after November 1, 1947, in accordance with the resolution of Congress approved on August 8, 1947.

Generally speaking, the instalment terms prescribed by this regulation called for maturities of not more than fifteen months and down payments of at least one-third. The continuance of strong inflationary pressures has confirmed the belief of the Board that this is no time for the relaxation of terms by banks, finance companies, and instalment sellers. Demand for automobiles and many other durable goods specifically covered by the regulation is still far in excess of supply. Easier credit will not add to the supply. It can only intensify demand and accentuate the upward pressure on prices. Easier terms should await a time when growth of credit is needed to maintain full production. That time has not arrived and it is not in immediate prospect. Employment and national income are at all time peaks. Inflationary forces continue to exert powerful upward pressures on the general price level. There could not be a worse time to encourage the public to go deeper and deeper into debt.

Notwithstanding Regulation W and continued shortages particularly of consumers' durable goods, instalment credit, on which the regulation has been focused, has expanded by more than three billion dollars since the end of the war. Even this is too rapid a rate of growth under the prevailing inflationary conditions. Experience has shown that rapid and excessive expansion of this type of credit is followed by a sharp reversal, thus contributing greatly to economic instability.

As has been stated by the President, "It will be in the public interest for every merchant and financial agency extending instalment credit to avoid undue relaxation of terms. It will be far better to reduce prices rather than to relax terms in seeking new customers. Self-restraint on the part of those who use credit as well as on the part of those who extend it will reduce the danger of an overexpansion of instalment credit which would inevitably be followed by severe contraction, thereby contributing to unemployment and reduced production."

The primary responsibility for avoiding excesses now rests upon the lenders and vendors who have been subject to the regulation. Their interest and that of the nation will be served best if they refrain from taking undue advantage of the end of the regulation. The Board of Governors urges all who participate in the extension of instalment credit to recognize and do all within their power to avert through self-imposed restraints the dangers inherent in easy terms that result in overexpansion of consumers' instalment credit.