FEDERAL RESERVE BANK

OF DALLAS

Dallas, Texas, September 13, 1948

REGULATION W—INTERPRETATION

To the Registrant Addressed:

The following interpretation was issued by the Board of Governors of the Federal Reserve System with respect to the $70 figure mentioned in Part 2 of the Supplement to Regulation W, effective September 20, 1948:

"The Board has been asked about the application of Part 2 of the Supplement to Regulation W which specifies a maximum maturity of 15 months for extensions of credit of $1,000 or less and a maximum maturity of 18 months for extensions of credit of more than $1,000 with the exception that for credits of more than $1,000 the instalment payments shall not be less than $70 per month. The particular question is whether the $70 figure applies to the total monthly payment or only to the amount of that payment applicable to the principal of the obligation not including interest or finance charge.

"The instalment payment referred to in the $70 clause is the total monthly payment. An example of its use in connection with the purchase of an automobile is as follows:

$1,500.00	Purchase price
500.00	Down payment
1,000.00	Balance of purchase price
90.00	Insurance (15-18 months)
1,090.00	Unpaid balance (principal amount)
98.10	Finance charge at 6% for 18 months
$1,188.10	Amount of total obligation
$ 66.01	Monthly payment at 18 months

As this amount of monthly payment is less than $70, the number of months over which the contract is payable must be reduced. The longest term available for this transaction with equal monthly payments would be 16 months as shown by the following calculation:

$1,090.00	Unpaid balance as above
87.20	Finance charge at 6% for 16 months
$1,177.20	Amount of total obligation
$ 73.58	Monthly payment at 16 months

In the usual case, the Registrant will not need to go through these calculations in detail as he will have an appropriate payment chart which will give him the necessary figures directly.

"The Board has also been asked about the application of Part 2 in cases where the insurance and finance charge are not separated and it is not possible to determine the exact 'principal amount.' These are usually cases in which the obligation is purchased from a dealer by a financial institution which furnishes the dealer with charts showing the payments necessary for various balances (purchase price less down payment), the cost of insurance and the finance charge being included in the payments. The balances which can be financed at various maturities can be determined from the charts by following the principle that a balance can be financed at 18 months, at 17 months, or at 16 months if the payments specified in the chart applicable to the transaction for the particular maturity desired are at least $70 per month.

"This principle is illustrated by the following procedure. The Registrant can ascertain from the chart the smallest balance which requires monthly payments of $70 or more with an 18-months' maturity. That balance and all larger balances may be written with an 18-months' maturity. If the chart shows payments for a 17-months' maturity, the Registrant can ascertain the smallest balance which requires monthly payments of $70 or more with a 17-months' maturity. That balance and all larger balances may be written with a 17-months' maturity. A similar procedure can be followed if the chart shows payments for a 16-months' maturity. The charts will in many instances be set up by the financial institutions to show these breaking points and it is of course optional with the financial institution whether or not it will take contracts with 16-months' or 17-months' maturities. For ease in handling, the financial institution may prefer to omit the 16-months' and 17-months' maturities, in which case no balance smaller than the balance which requires monthly payments of $70 or more with an 18-months' maturity could be written with a maturity of more than 15 months."

Yours very truly,

R. R. GILBERT

President