

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, September 8, 1950

CONSUMER CREDIT
ADOPTION OF REGULATION W — EFFECTIVE SEPTEMBER 18, 1950

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 September 9, 1950, relating to reinstatement of the regulation of consumer instalment credit through Regulation W.

“Under the authority of the Defense Production Act of 1950, the Board of Governors today reinstated regulation of consumer instalment credit through Regulation W effective at the opening of business September 18, 1950.

“The Regulation covers automobile instalment credits of \$5,000 and less and other instalment credits of \$2,500 and less. Except that home improvement credits are now covered and terms are generally tightened, the Regulation is in much the same form as the Regulation which expired June 30, 1949.

“The limitations initially established are:

“Down payments of at least one-third, and maximum maturities of 21 months for automobiles.

“Down payments of at least 15 per cent, and maximum maturities of 18 months for appliances: refrigerators, food freezers, radio or television sets, phonographs, cooking stoves, ranges, dishwashers, ironers, washing machines, clothes driers, sewing machines, suction cleaners, air conditioners and de-humidifiers.

“Down payments of at least 10 per cent, and 18 months maximum maturity for furniture and rugs.

“Down payments of at least 10 per cent, and 30 months maximum maturity for home repairs, alterations or improvements.

“Following the past policy of placing fewer restrictions on small credits, the new regulation does not contain down payment requirements for articles costing less than \$100 although, unlike the former regulation, maturities are limited.

“Instalment loans for the purchase of any listed article carry the same limitations that apply to the instalment sale of the article; other instalment loans are limited to a maximum maturity of 18 months.

“In establishing the initial terms the Board took into account the prevailing practices and terms in the trades affected. There has been a material relaxation of instalment credit terms during the past year or more, and the requirements of the Regulation are substantially tighter than the terms now widely offered.

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"In the automobile field the great majority of recent instalment sales of new cars and late model used cars are reported as having been financed on substantially easier terms, either as to down payments or maturities or both, than permitted by the new regulation.

"Similarly, many instalment sales of appliances and furniture are reported as having been made with down payments of 10 per cent or less; in many cases only token or no down payments have been required. Maturities of 24 months on instalment sales of such articles have been reported as widely prevalent with longer maturities offered in some cases.

"Consumer credit has undergone an unprecedented expansion, particularly in recent months. Under present conditions continued excessive growth of consumer instalment credit adds materially to inflationary pressures.

"The regulation of consumer credit is one of the fiscal, monetary and credit measures designed to restrain the inflationary pressures that result in higher prices and to facilitate diversion of critical material and manpower to production of defense needs as such diversion is required.

"As the Board has frequently emphasized, the Regulation is a useful supplementary instrument to combat inflation. It applies to an important part, but only to one part, of the credit structure and therefore cannot by itself effectively control inflationary forces.

"The Regulation is being published in the Federal Register and copies of the Regulation will be made available through all Federal Reserve Banks and branches as soon as possible. The Regulation will be administered in the field by the 12 Federal Reserve Banks and their 24 branches located conveniently throughout the country. Inquiries should be addressed to the nearest Federal Reserve Bank or branch.

"Regulation W was first put into effect under executive order September 1, 1941. It expired November 1, 1947. It was reinstated September 20, 1948 under statutory authority which expired June 30, 1949. The business community and the buying public, the Board and the Federal Reserve Banks have thus had extensive experience with this type of credit regulation.

"Through the 12 Federal Reserve Banks and their 24 branches, and the more than 250 directors of the Reserve banks and branches, the Board has the advantage of immediate and close contact with all segments of commerce, trade and industry, and with consumers affected by the Regulation. Because of this advantage, a regulation of this kind can be promptly adapted in the future, as it has in the past, to changing conditions as reported on the basis of experience in all parts of the nation."

A copy of the new regulation will be forwarded to you within the next few days.

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

Yours very truly,

R. R. GILBERT

President