

FEDERAL RESERVE BANK

OF DALLAS

Dallas, Texas, July 2, 1951

REGULATION W—TRADE-IN ALLOWANCES

*To All Registrants and Other Interested Persons
in the Eleventh Federal Reserve District:*

Recent advertisements regarding trade-in allowances on listed articles have directed our attention to the possibility that there is a serious misconception on the part of a few instalment sellers concerning certain provisions of Regulation W. While Regulation W is quite clear on the subject of trade-ins, recent articles appearing in the press may have given the impression that the Regulation has been changed. No such change has been made.

As Section 6(j) of the Regulation states:

“Anything which the seller of a listed article buys, or arranges to have bought, from the purchaser at or about the time of the purchase of the listed article shall be regarded as a trade-in for the purposes of this Regulation.”

For all listed articles except automobiles, the value of the trade-in, as is the case with any allowance or discount, must be deducted from the cash price to obtain a net price; and the specified down payment percentage of the **net price** must be paid in cash. Thus, if a \$100 trade-in allowance is given toward the purchase of a \$400 television set, the 25 per cent minimum cash down payment is \$75 and the maximum credit that can be extended on the set is \$225. In the case of automobiles, and automobiles only, the required down payment may be obtained in the form of cash, trade-in, or both.

The purchase of an article by a dealer or his representative and the use of funds derived from the sale by the customer as part of the required down payment on a listed article other than an automobile is a violation of Regulation W. This has been and remains the rule. Moreover, any other arrangement which circumvents the down payment requirement is an infraction of the Regulation.

This bank and its branches at El Paso, Houston, and San Antonio will be glad to answer questions on specific problems under the Regulation.

Yours very truly,

R. R. GILBERT

President