

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 2278]  
September 19, 1941]

CONSUMER CREDIT

INTERPRETATIONS OF THE BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM REGARDING REGULATION W

*To all Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

Supplementing our Circular No. 2272, dated September 10, 1941, there are transmitted to you herewith interpretations made by the Board of Governors of the Federal Reserve System regarding Regulation W from September 10, 1941, to September 18, 1941, inclusive.

A number of inquiries received by the Board have involved the question as to whether or not particular articles are included among the articles listed in the Supplement to the regulation. The contents of the Board's interpretations made during the period from September 10, 1941, to September 18, 1941, inclusive, in response to such inquiries have been consolidated and are set forth under the caption "Status of Specific Articles" on page 8. All other interpretations made by the Board during that period are reproduced in full. The catch line inserted immediately preceding each interpretation is not a part thereof as issued by the Board and should not be regarded as affecting the construction of the interpretation.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,  
*President.*

**INTERPRETATIONS OF BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
REGARDING REGULATION W WHICH RELATES TO CONSUMER CREDIT**

[For interpretations W-1 to W-44 inclusive, see Circular No. 2272]

**W-45 Meaning of "principal amount" in section 5(b)**

The phrase "principal amount" in section 5(b) of Regulation W means the principal amount lent to the obligor, excluding any interest, finance charges, service charges and insurance costs, whether or not deducted in advance.

For example, if a borrower receives \$975 but signs a note on a discount basis for \$1,020, the loan is in a "principal amount" of less than \$1,000 within the meaning of section 5(b).

**W-46 Miscellaneous musical instruments not included**

[See "Status of Specific Articles", page 8]

**W-47 Understanding regarding renewals**

Questions have been received as to whether an extension of credit which, upon its face, is repayable in only one scheduled payment is an extension of instalment credit if, at its maturity, a partial payment is made and the balance is renewed.

Answers to such questions depend upon whether or not there are any agreements or understandings between the parties at the time the extension of credit is made. For example, if at the time a particular extension of credit is made the Registrant and obligor have an understanding that the obligor will be required to make only a partial payment at maturity and that, upon making such partial payment, the balance will be renewed, the extension of credit is an extension of instalment credit notwithstanding the fact that the obligation, upon its face, provides for repayment in only one scheduled payment.

**W-48 First lien—credit in connection with construction to be secured by first mortgage**

An inquiry has been received regarding the applicability of section 6(a) of Regulation W to an extension of credit made by a builder covering the cost of building a home and secured by a first lien on the real estate upon which the home is to be constructed.

The general principle applicable to these cases is that the mortgage and the contract or contracts for the extension of credit and the construction may be regarded as parts of a single transaction and that the facts existing on the date of completion may be used in determining the application of the regulation. Consequently, the Board is of the opinion that the extension of credit may be regarded as secured by a first lien on improved real estate within the meaning of section 6(a). The general principle is similar to that discussed in the second paragraph of W-43.

**W-49 Renewal or revision of credit under section 6(f)**

The Board has received a question under Regulation W which may be stated as follows:

"If an extension of credit which was originally made as a 3 months' credit conforming to section 6(f) is renewed or revised, must it be limited to a maturity of 3 months from the date of the renewal or revision, or may it have a maturity of as much as 18 months from the date of the renewal or revision as in the case of a credit which was not originally under section 6(f)? If the renewal or revision of such a credit occurs on or after November 1, does it require a statement of necessity as specified in section 8(a)?"

1. A renewal or revision of a 6(f) credit is not limited to a maturity of three months from the date of the renewal or revision, and is limited only to a maximum maturity of 18 months from the date of the renewal or revision as in the case of renewals or revisions of other credits under the regulation. If the renewal or revision occurs on or after November 1, and alters the terms of repayment to terms which would not have complied with section 6(f) in the first instance, the renewal or revision may not be made unless a statement of necessity is accepted in good faith as specified in section 8(a).

2. The preceding paragraph would not apply in the case of the *first* renewal or revision on or after September 1 of a credit which was originally extended before September 1. As indicated in W-19 and W-28 in discussing other pre-September credits, any pre-September credit may be renewed or revised *once* without the statement of necessity and on any terms which the Registrant would have granted in good faith in the absence of the regulation.

3. It is important to note, as pointed out in W-19, that section 8(g) prohibits any extension of instalment credit in connection with which there is any evasive side agreement for the subsequent renewing or revising of the credit. Any renewal or revision beyond the period originally permissible for the credit must be the bona fide result of some development coming after the making of the original extension of credit. Unless it is such a bona fide result of a subsequent development, it is prohibited by section 8(g).

#### **W-50 Classification of article, component parts of which fall in different classifications**

[See "Status of Specific Articles", page 8]

#### **W-51 Household furnaces and heating units for furnaces**

[See "Status of Specific Articles", page 8]

#### **W-52 Rental-purchase contracts**

The Board has been asked several questions about the application of Regulation W to a case in which a Registrant rents a piano or other listed article to a customer and the rental contract includes an option giving the customer the right to purchase the article.

Executive Order No. 8843, under the authority of which Regulation W is issued, and section 2(b) of the regulation, define "extension of credit" as including "any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee . . . has the option of becoming the owner thereof . . ." Therefore the type of contract to which the inquiry relates is subject to the provisions of Regulation W.

Under these provisions it is necessary that, under such a contract, the Registrant obtain, at or before the delivery of the article to the lessee, a deposit equal to the amount of the down payment which the regulation would require upon an instalment sale of the listed article, and that the lease call for periodic payments in an amount not less than the amount of the instalments which Regulation W would require on an extension of instalment sale credit arising out of the sale of the article. In the event that the lessee decides to exercise his option to purchase the article, these payments, including the deposit, under the lease will serve in lieu of both the necessary down payment and the instalments which would have been due between the date of the original lease and the date the option to purchase is exercised, and the balance of the sale price may be paid in instalments subject to the final maturity of 18 months from the date of the original lease. In the event that the lessee decides not to exercise his option to purchase, the Registrant may return to him the difference between the payments, including the deposit, which the lessee has made and the amount of rental that may have been agreed upon for the period that the lessee has retained the article, and it is permissible for the lease to contain a provision to this effect.

It should be noted that the regulation does not apply to a bona fide rental agreement under which the lessee does not receive a transfer of ownership, does not obligate himself to pay as compensation a sum substantially equal to or in excess of the value of the article, and does not receive an option to purchase.

#### **W-53 Written statement referred to in section 8(c) not a "statement of necessity"**

An inquiry which may be stated as follows has been received under Regulation W:

"Section 8(d) refers to statements of necessity as provided in paragraphs (a), (b) and (c) of section 8. However, paragraph (c) does not contain the words 'statement of necessity'.

Is the 'written statement' described in section 8(c) to be regarded as a 'statement of necessity'?"

If the answer is in the affirmative, would it be desirable as a practical precaution for any bank or other lender extending instalment loan credit to take, in every case, the written statement referred to in section 8(c)?"

The written statement referred to in the last sentence of section 8(c) is not a "statement of necessity" of the kind referred to in section 8(d). Section 8(c) refers to statements of necessity only to the extent that it incorporates by reference certain requirements of "section 8(a) or 8(b), including the provisos thereof". With respect to last part of inquiry, see W-35.

#### **W-54 Extension of credit to retire obligation made prior to September 1, 1941 and held elsewhere**

An inquiry which may be stated as follows has been received under Regulation W:

"Section 8(e) provides that the requirements of sections 8(a), (b) and (c) do not apply 'to any renewal or revision' of an extension of credit made prior to September 1, and provides in effect that any such extension of credit may be renewed or revised once on or after September 1. Do the same principles apply to an extension of credit to retire an obligation held elsewhere, assuming the latter covers an extension of credit made prior to September 1?"

Section 8(e) refers specifically to section 8(c), and therefore the same principles apply as in the case of a renewal or revision by the original obligee. These principles are discussed in W-19 and W-28.

#### **W-55 "Pack" to be excluded in determining credit value of automobile**

A question has been received under Regulation W concerning a sum of \$50 to \$100, sometimes called a "pack", which a dealer may at times include in the price of an automobile as quoted to customers. When the automobile is sold, all or part of this sum may be eliminated from the price actually paid by the purchaser, either by an increase in trade-in allowance or by way of discount on cash purchases. The question is whether, in determining the maximum credit that can be extended to the customer, such an extra sum of \$50 to \$100 may be included, either as part of the "bona fide cash purchase price" of the automobile and accessories or, in the case of a new automobile, as part of Item 1 or Item 4 of Part 3(a) of the Supplement.

In determining what is the "bona fide cash purchase price" of a given automobile to be used in determining the maximum amount of credit under Part 3, padding of any kind—such as the "pack" referred to in the question if it is to be eliminated from the price actually paid by the customer by an increase in trade-in allowance or by some other device—must be excluded. In the specific case of a new automobile the maximum credit value can in no event exceed 66 $\frac{2}{3}$  per cent of the sum of Items 1 through 4 of Part 3(a) of the Supplement, and a \$50 to \$100 sum such as that described in the present question could not be included in any of these four items.

#### **W-56 Instalments in declining amounts**

Inquiry has been received whether section 4(c) prohibits sale of automobile with first monthly instalment of \$65 and remaining 17 monthly instalments of \$23.

Section 4(c) is worded in the alternative, and instalments must either be substantially equal in amount or "be so arranged that no instalment is substantially greater in amount than any preceding instalment". Therefore answer to inquiry is negative.

#### **W-57 Sale of demonstrator by automobile salesman**

A question has been received regarding the application of Regulation W to a case in which an automobile salesman sells his demonstrator. The question also relates to the purchase of the resulting obligation by the dealer-employer of the salesman.

The dealer-employer in such a case, who presumably is a Registrant as described in section 3 and also familiar with the particular transaction, may not in any event purchase the obligation unless it complies with the requirements of section 4. This is true because no Registrant may



knowingly purchase any instalment sale obligation which fails to comply with section 4, regardless of who made the original extension of credit.

The regulation does not apply to an isolated extension of credit by a person who is not "engaged in the business" as described in section 3(a). However, it is important to note that, whatever the form in which the arrangement may be set up, an automobile salesman's financial interest in his demonstrator may represent a relationship that is substantially different from that of the ordinary automobile ownership. It may have the formal appearance of a purchase of the automobile by the salesman, when actually the demonstrator is in effect the property of the dealer-employer rather than the salesman. In such a case the sale of the demonstrator by the salesman should, for the purposes of the regulation, be treated like any other sale made by the salesman, i.e. as a sale made by him as agent for the dealer-employer, and hence should comply with the requirements of section 4 regardless of whether the obligation is purchased by the dealer-employer.

#### **W-58 Bank discounting obligation not under duty to ascertain whether original lender is licensed**

In view of provisions of section 3(a)(2)(B), bank which discounts an obligation which is subject to the Regulation is not obliged to ascertain whether the original lender is a duly licensed Registrant.

#### **W-59 Water meters**

[See "Status of Specific Articles", page 8]

#### **W-60 Part of excess down payment on one article may not be applied later towards down payment on another article**

The Board has received the following question relating to Regulation W:

"A purchaser buying a listed article makes a down-payment in excess of the amount required by the regulation. May he be permitted later, in purchasing a second listed article, to apply any part of the down-payment on the first article as the required down-payment on the purchase of the second article?"

He is not permitted to do so.

#### **W-61 Person engaged in business of making extension of instalment sale credit even though employees are only customers**

An inquiry which may be stated as follows has been received under Regulation W:

"The X Electric Company purchases substantial numbers of automobiles for cash and sells them to its salesmen on a monthly payment plan, with payments spread over 12 to 18 months. The X Electric Company does not make such sales to anyone except its salesmen. Is the X Electric Company 'engaged in the business' as described in section 3(a)? Must these extensions of credit comply with the down-payment and other requirements of the regulation?"

Both parts of the question should be answered in the affirmative.

#### **W-62 Replacement or repair parts for listed articles**

The Board has received the following inquiries:

"Does the term 'automobile' in Group A of Supplement, Regulation W include automobile engines purchased separately for installation in a used car chassis?"

"Does term 'mechanical refrigerator', Item 1, Group C, Supplement, include motor unit replacement, if purchased separately?"

These inquiries raise a general question with respect to the treatment of replacement or repair parts for listed articles. It is to be noted that certain parts are mentioned specifically in the list, as for example, motors for power driven boats, heating units for furnaces, and certain

items that are included in Group D-4 and Group E. The regulation however does not treat replacement or repair parts as being included in the list merely by reason of the listing of the complete article, with the consequence that an automobile engine purchased separately would not by inference be classified as a listed article on the ground that automobiles are listed. On the other hand, if the Registrant knows or has reason to know that any purchase is part of a scheme to acquire a complete listed article by purchasing separate pieces, the Registrant is required to treat the credit extended as if the piece purchased were a listed article.

#### **W-63 Application of equity in used car against down payment on new car**

The following question has been received under Regulation W and has been answered in the affirmative:

“Used car has unpaid instalment contract. May dealer pay off unpaid contract, apply the equity in the used car against down payment on new car and finance the difference (assuming it is not more than 66⅔ per cent of the cash price) between the equity and the price of the new car over 18 equal payments?”

#### **W-64 Date of sale of article “on trial” determined when purchaser decides to purchase**

Inquiries have been received as to applicability of Regulation W to a case where vendor of a listed article requests a prospective purchaser to allow him to install it in prospective purchaser's home “on trial” or “on approval” for a 60-day period. The prospective purchaser agrees and at end of 60-day period decides to purchase the article. At what time is the sale of the article to be regarded as having been made?

Assuming that the transaction is entered into in good faith and not for the purpose of evasion, the Board is of the opinion that if the prospective purchaser has the unconditional right to return the article to the prospective vendor at any time within the 60-day period, and if the prospective purchaser does not make, and is not obligated to make, a deposit or payment of any kind to the prospective vendor unless and until he informs the prospective vendor that he has decided to purchase the article, the date of sale, for the purpose of Regulation W, may be regarded as the day on which the prospective purchaser informs the vendor of his decision to purchase the article.

#### **W-65 Renewal or revision of credit under section 6(f)**

Regulation W does not require a Registrant to obtain down payment or otherwise to increase amount received through previous payments when a three months credit conforming to section 6(f) is renewed or revised in good faith as described in W-49.

#### **W-66 Pressure cookers**

[See “Status of Specific Articles”, page 8]

#### **W-67 Mechanical refrigerators**

[See “Status of Specific Articles”, page 8]

#### **W-68 Any sum allocated to music lessons does not constitute services rendered in connection with acquisition of instrument under section 4(f)(2)**

An inquiry has been received regarding an instalment sale contract of a musical instrument which states a single sum in payment of purchase price of instrument and lessons in playing thereof and carrying charge on deferred balance. In such case must amount allocable to lessons be regarded as being for services rendered in connection with acquisition of article under section 4(f)(2)?

Any sum actually allocated to music lessons is of course not to be regarded as the cost of services rendered in connection with acquisition of musical instruments.

**W-69 Extension of instalment sale credit under section 6(j)**

Obligor who has received credit conforming to section 6(j) and who subsequently receives instalment sale credit on listed article priced at \$100 is not required to make down payment on original purchase. The 6(j) credit remains a separate transaction.

**W-70 Under section 9(b) first instalment may fall due 45 days after date of contract or note**

Question has been asked whether section 9(b) of Regulation W permits first instalment to fall due 45 days after date of contract or note, assuming such date is date of sale, even though the result is that the obligation may show on its face that credit was extended for 18½ months. Answer is in the affirmative.

**W-71 Calculation of basis price of listed article when customer owes Registrant unpaid balance on article traded in**

A question which may be stated as follows has been received under Regulation W:

A Registrant sells a \$100 radio, receiving in trade or exchange a used radio which he has previously sold to the customer and on which the customer owes the Registrant an unpaid balance. The Registrant allows the customer \$15 for his equity. What is the basis price, the maximum credit value and the down-payment requirement of the new radio? How should the maximum maturity be calculated for such a transaction?

Under Part 2 of the Supplement, the basis price of the new radio would be \$85 (\$100 minus the \$15 equity traded in by the customer). Hence the maximum credit value would be \$68 (80% of \$85) and the required down-payment would be \$17, which would be in addition to the \$15 allowance for the customer's equity. The maximum maturity would be 18 months from the date of the sale of the \$100 radio, with the usual option under section 9(b) of making the 15-day adjustment permitted by that section for calculating the maximum maturity.

## STATUS OF SPECIFIC ARTICLES

The following information is consolidated from several interpretations of the Board in response to inquiries regarding the status of particular articles. The group headings *C*, *D* and *E* below correspond with the similarly lettered Groups in Part 1 of the Supplement to Regulation W.

### *Group C*

The classification "mechanical refrigerators" does not include an electrically operated portable unit for cooling and dispensing drinking water.

The classification "musical instruments composed principally of metals" does not in general include violins, guitars, mandolins, accordions, clarinets, oboes or bassoons. Certain models of some of these instruments, however, have metal bodies or tubes, in which case they are included in the classification.

### *Group C and Group D*

The Board has been asked whether a piece of furniture, such as a table, lamp, or bed, having a radio built in and a composite part of the article is to be classified as household furniture or as a radio. The classification depends upon the relative value of the component parts. If the value of the radio is greater than the value of the table, lamp, or bed as a separate piece of furniture, then the article is to be classified as a radio.

### *Group D and Group E*

The classification "household furnaces and heating units for furnaces (including oil burners, gas conversion burners, and stokers)" includes heat generating sources such as furnaces and boilers, and appurtenances which form a part of such sources, individually or collectively installed, when such sources or appurtenances are designed for actual net output of 240,000 B.T.U. per hour or less. For purposes of determining the maximum amount of credit the bona fide cash purchase price of such equipment is considered to include the cost of installation and the cost of accessories such as fuel oil storage tanks, heat control units, or coils for heating domestic hot water installed at the time of the installation of the furnace, boiler or heating unit. The classification does not include piping, ducts, radiators, convectors, or registers installed in connection with such equipment, but it is to be noted that these items may fall within the classification of materials and services referred to in Group E of Part I of the Supplement.

The classification "plumbing fixtures designed for household use" does not include water meters.

### *Miscellaneous*

Pressure cookers are not included in any of the classifications of listed articles.

For information concerning replacement or repair parts for listed articles, refer to W-62.



Please forward to us.....additional copies of your Circular No. 2278,  
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**Federal Reserve Station, P. O.,**

**New York, N. Y.**