

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 2303]
October 25, 1941

CONSUMER CREDIT
**AMENDMENT NO. 2 TO REGULATION W OF THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM**

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

The Board of Governors of the Federal Reserve System has adopted, effective December 1, 1941, Amendment No. 2 to Regulation W dealing with instalment credit, a copy of which is enclosed. The Amendment is mainly of an administrative and technical nature.

The following is a nontechnical summary of the changes in the regulation made by Amendment No. 2.

Instalment loans of \$1,500 or less (instead of \$1,000 as previously) are made subject to the 18-month maturity limit (except modernization loans, where the figure remains \$1,000).

Instalment loans of \$1,500 or less for the purpose of purchasing listed articles are made subject to the same limit on amount as now applies to instalment loans secured by listed articles.

In connection with all instalment loans of \$1,500 or less and all instalment loans secured by listed articles, the lender is required after January 1, 1942 to obtain a signed statement from the borrower as to the purpose of the loan.

Down payments of \$2 or less are no longer required; and the \$5 minimum on monthly instalments (which was to become effective January 1, 1942) is eliminated.

Instalment loans to make down payments on listed articles are prohibited.

In addition to first mortgages, which are already exempt, credit extended to finance or refinance the construction or purchase of an entire building is exempt.

Instalment loans for business purposes are exempt (except in connection with the purchase of listed articles).

In connection with additions to outstanding credits, the lender or seller is given an option: (1) the old credit and the addition may be treated separately in applying the regulation, or (2) the consolidated credit may have a maturity of 15 months, with monthly instalments at least as large as under the old credit.

For farmers, any schedule of payments is permitted, if the down payment and maturity requirements of the regulation are complied with, and if one-half of the balance is to be paid within the first half of the maximum maturity.

All these amendments are effective December 1, 1941; and the provisions of the regulation which were to be effective on November 1 are postponed to December 1, 1941.

Additional copies of Amendment No. 2 and of this circular will be forwarded to you upon receipt of your request on the enclosed card.

ALLAN SPROUL,
President.

AMENDMENT NO. 2 TO REGULATION W

ISSUED BY THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Effective December 1, 1941

Effective December 1, 1941, Regulation W is amended in the following respects:

SECTION 2(e)

In section 2(e) the figure \$1,000 is changed to \$1,500.

SECTION 4(e)

Section 4(e) is stricken out and a new section 4(e), which reads as follows, is substituted:

(e) **Small Down Payments.**—In any case in which the down payment required by section 4(a) would be \$2.00 or less, the Registrant may disregard such requirement.

SECTION 5

Section 5 is changed to read as follows:

SECTION 5. INSTALMENT LOAN CREDIT

Except as otherwise permitted by section 6, any extension of instalment loan credit shall comply with the following requirements:

(a) **Loans Secured by or to Purchase Listed Articles.**—If the extension of instalment loan credit is secured, or according to any oral or written agreement of the parties is to become secured, by any listed article which has been purchased within 45 days prior to, or is to be purchased at any time after, such extension of instalment loan credit; or if the extension of instalment loan credit, even though not so secured, is in a principal amount of \$1,500 or less and the Registrant knows or has reason to know that the proceeds are to be used to purchase any listed article:

(1) The principal amount lent to the obligor (excluding any interest or finance charges, and the cost of any insurance) shall not exceed the maximum credit value of the listed article specified in the Supplement; and, in determining such maximum credit value, the Registrant may accept in good faith a written

statement signed by the obligor setting forth the *bona fide* cash purchase price of the article and of any accessories and of any services, except insurance, rendered in connection with the acquisition thereof, which statement so accepted shall, for purposes of this regulation, be deemed to be correct; and

(2) The maturity shall not exceed that specified for the listed article in the Supplement, and such maximum maturity shall be calculated from the date of purchase of such listed article or from the date of such extension of instalment loan credit, whichever is earlier.

(b) **Miscellaneous Loans of \$1,500 or Less.**—If the extension of instalment loan credit is not subject to section 5(a) but is in a principal amount of \$1,500 or less, the maximum maturity shall not exceed that specified in the Supplement for extensions of instalment loan credit subject to this section 5(b).

(c) **General Requirements.**—Whether subject to section 5(a) or section 5(b), the extension of instalment loan credit shall comply with the following additional requirements:

(1) The extension of instalment loan credit shall be evidenced by a written instrument or record, and there shall be incorporated therein or attached thereto a written statement, of which a copy shall be given to the obligor as promptly as circumstances will permit, and which shall set forth the terms of payment and, if the loan is subject to section 5(a), the *bona fide* cash purchase price used for determining the maximum credit value of the listed article involved;

(2) Except as permitted by section 5(c)(3), the total of the principal and any interest or finance charges shall be payable in instalments which shall be substantially equal in amount or be so arranged that no instalment is substantially greater in amount than any preceding instalment; and

(3) Instalments shall be payable at approximately equal intervals not exceeding one month, except that, when appropriate in order to facilitate repayment in accordance with the seasonal nature of the obligor's main source of income or to encourage off-seasonal purchases of seasonal goods, the payment schedule may reduce or omit payments over any period or periods totaling not more than 4 months during the life of such extension of credit if the schedule increases the scheduled payments in such manner as to meet the other requirements of this section 5.

(d) **Statement of the Borrower.**—On and after January 1, 1942, no Registrant shall make any extension of instalment loan credit (except under the provisions of section 8(a)) unless, at or before the execution of the loan contract, he shall have obtained and accepted in good faith a signed Statement of the Borrower as to the purposes of the loan in form prescribed by the Board. No obligor shall willfully make any material misstatement or omission in such Statement. The Registrant, acting in good faith, may rely upon the facts set out by the obligor in such Statement and, when the Registrant is so acting, such facts shall be deemed to be correct for the purposes of the Registrant. Until January 1, 1942 (after which date a Statement of the Borrower must be obtained) the Registrant, in ascertaining the purposes of the loan or the maximum credit value of any listed article, may, in good faith, accept and rely upon a written statement in any form signed by the obligor and such statement shall, for the purposes of this regulation, be deemed to be correct. In case the Registrant accepts in good faith a written statement signed by the obligor that any listed article which secures an extension of instalment loan credit has not been purchased within 45 days prior to such extension of credit, such statement shall, for the purposes of this regulation, be deemed to be correct.

(e) **Credit Subject to Section 5(a) Only in Part.**—In case an extension of instalment loan credit consists only in part of an extension of credit subject to section 5(a), the amount and terms of such extension of credit shall be such as would result if the credit were divided and each part treated in good faith as if it stood alone.

A loan or part thereof which is secured by a listed article only because of an "overlap agreement", "spreader clause", or other form of general over-all lien or only because the Registrant is prevented by a State law or regulation from having in effect more than one contract of loan from the same borrower at the same time, but which otherwise would not be subject to section 5(a), shall not be deemed to be so secured within the meaning of such section.

(f) **Loans to Make Down Payments Prohibited.**—An extension of instalment loan credit does not comply with the requirements of this regulation if the Registrant making such extension knows or has reason to know that any part of the proceeds thereof is to be used to make a down payment on the purchase price of any listed article: *Provided*, That, if the Registrant accepts in good faith a written statement signed by the obligor that no part of the proceeds is to be so used, such statement shall, for the purposes of this regulation, be deemed to be correct.

SECTION 6(a)

Section 6(a) is changed to read as follows:

(a) Any extension of credit which is secured by a *bona fide* first lien on improved real estate duly recorded or which is for the purpose of financing or refinancing the construction or purchase of an entire residential building or other entire structure.

SECTION 6(l)

A new subsection reading as follows is added at the end of section 6:

(l) Any extension of instalment loan credit which is made to a person whose income is derived principally from the operation of a business enterprise of which such person is the owner or proprietor, provided the extension of credit is for the purpose of financing such business enterprise and is not for the purpose of purchasing any listed article or secured by any listed article purchased within 45 days before the extension of credit.

SECTIONS 8(a), 8(b), 8(c) AND 8(d)

The effective date of sections 8(a), 8(b), 8(c) and 8(d) has been postponed from November 1, 1941, to December 1, 1941, and they have been changed to read as follows:

(a) **Renewals or Revisions.**—If any obligation or claim evidencing any extension of instalment sale credit or instalment loan credit is renewed or revised by a Registrant, the extension of instalment credit does not comply with the requirements of this regulation if such renewal or revision has the effect of changing the terms of repayment to terms which this regulation would not have permitted in the first instance for such credit; *Provided*, That nothing in this regulation shall be construed to prevent any Registrant from making any renewal or revision, or taking any action that it shall deem necessary in good faith, (1) with respect to any obligation of any member of the armed forces of the United States incurred prior to his induction into such service, or (2) for the Registrant's own protection in connection with any obligation which is in default and is the subject of *bona fide* collection effort by the Registrant.

(b) **Additions to Outstanding Credit Held by Registrant.**—An extension of instalment sale credit or instalment loan credit does not comply with the requirements of this regulation if it is consolidated with any obligation or obligations held by the Registrant evidencing any prior extension or extensions of instalment credit to the same

obligor, unless the additional extension of credit complies with the maximum credit value limitations applicable thereto (if any) and, in addition, the consolidated obligation complies with one of the following options:

Option 1. The terms of the consolidated obligation shall be such as would have been necessary to meet the requirements of this regulation if the two obligations had not been consolidated;
or

Option 2. The consolidated obligation shall provide for a rate of payment, throughout its term, which is (A) at least as large per month as the rate of payment or payments on the outstanding obligation or obligations being consolidated would have been for the month commencing on the date of consolidation, and (B) is larger to whatever extent may be necessary in order to repay the consolidated obligation within 15 months.

(c) **Credit to Retire Obligations Held Elsewhere.**—Any extension of instalment loan credit, the proceeds of which a Registrant knows or has reason to know will be used in whole or in part to retire any extension of instalment credit not held by such Registrant, shall be subject to the provisions of this regulation to the same extent as if the obligation being retired were held by the Registrant.

(d) **Statement of Necessity to Prevent Undue Hardship.**—Notwithstanding the provisions of sections 8(a), 8(b) and 8(c), if a Registrant accepts in good faith a statement of necessity as provided in the following paragraph, the renewed, revised or consolidated obligation may provide for a schedule of repayment as though it were a new extension of instalment loan credit subject to section 5(b), even though such action results in the reduction of the rate of repayment thereon.

The requirements of a statement of necessity will be complied with only if the Registrant accepts in good faith a written statement in form and content prescribed by the Board and signed by the obligor that the contemplated renewal, revision or other action is necessary in order to avoid undue hardship upon the obligor or his dependents resulting from contingencies that were unforeseen by him at the time of obtaining the original extension of instalment credit or which were beyond his control, which statement also sets forth briefly the principal facts and circumstances with respect to such contingencies and specifically states that the renewal, revision, or other action is not pursuant to a preconceived plan or an intention to evade or cir-

cumvent the requirements of this regulation. Until the Board has prescribed the form and content of the statement of necessity the Registrant may in good faith accept a written statement in any form, provided such statement otherwise conforms to the requirements of this section.

SECTION 9(f)

Old section 9(f), which is superseded by language in the amended section 5(e), is stricken out and a new section 9(f), which reads as follows, has been substituted:

(f) "Farmer Plans".—When appropriate for the purpose of facilitating repayment in accordance with the seasonal nature of the obligor's main source of income, an extension of instalment credit which is made to a person who is engaged in agriculture and derives income principally therefrom may be payable in any amounts and at any intervals, notwithstanding sections 4(c), 4(d) and 5(e): *Provided*, That (1) the extension of credit complies with the applicable provisions concerning the amount and maximum maturity of the credit and (2) at least one-half of the credit is to be repaid within the first half of the applicable maximum maturity.

SECTION 10

Section 10 is changed to read as follows:

SECTION 10. EFFECTIVE DATE OF REGULATION

This regulation shall become effective September 1, 1941, except that sections 8(a), 8(b), 8(c) and 8(d) and the amendments made by Amendment No. 2 shall not become effective until December 1, 1941.

SUPPLEMENT, PART 4

In part 4 of the Supplement, the figure \$1,000 is changed to \$1,500.

2303

Please forward to us

.....additional copies of Amendment No. 2 to Regulation W of
the Board of Governors of the Federal Reserve System; and

.....additional copies of your Circular No. 2303.

.....
(Name)

.....
(Signature)

.....
(Street Address)

.....
(City or Town)

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(State)

.....
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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK OF NEW YORK

Federal Reserve Station, P. O.,

New York, N. Y.