

FEDERAL RESERVE BANK
OF NEW YORK

{ Circular No. 3715 }
June 1, 1951

REGULATION W
CONSUMER CREDIT

Large Quantity Sales of Listed Articles

*To all Persons Concerned with Regulation W
in the Second Federal Reserve District:*

We quote from a letter received from the Board of Governors of the Federal Reserve System in response to questions relating to instalment sales or leases of large quantities of listed articles:

From time to time questions have been received under Regulation W concerning the provisions of sections 7(a), 8(j)(5) and 8(j)(6) which exempt from the regulation instalment credit "in a principal amount" exceeding \$5,000 in the case of automobiles, and exceeding \$2,500 in other cases.

Whether credits considered individually or collectively. — In certain circumstances, credits may be added and treated collectively as a single credit for the purposes of the foregoing dollar figures. To be considered collectively as a single credit, the indebtedness must not only be incurred between the same Registrant and one customer, but it also must be incurred pursuant to a basic contract between them which governs the indebtedness and which must be relied upon to enforce the indebtedness. Even if there is some kind of basic contract, various items under it cannot be added together to reach the \$2,500 (or \$5,000) figure if they are represented by individual notes or other evidences of indebtedness that would support an action for the debt without resorting to the basic contract.

The amount stated in the basic contract is not controlling except to the extent that articles have actually been delivered or funds actually been disbursed pursuant to the contract. This may be illustrated by an example in which a Registrant and a customer enter into a contract for the delivery and instalment sale to the customer of, say, 50 refrigerators. Suppose further that each delivery of refrigerators is represented only by a mere receipt that refers back to the original contract and would not support a separate action. In such a case, deliveries under the original, basic contract would be subject to the regulation until the outstanding indebtedness exceeded \$2,500. Once that figure was exceeded the entire credit would be exempt. Additional deliveries under the contract while the indebtedness exceeded \$2,500 would also be exempt.

The foregoing principles would apply also in the case of instalment leases or instalment loans.

Continuance of over-\$2,500 (\$5,000) exemption. — The over-\$2,500 (or \$5,000) exemption is not lost merely because the principal amount of instalment indebtedness falls below such figure as the obligation is paid down. However, when such indebtedness has fallen below the exemption figure, additions thereto do not get the benefit of the exemption unless they are sufficient to bring the total of the indebtedness above the exemption figure. When the outstanding credit under a leasing or similar contract for financing quantity merchandising has exceeded the exemption amount, substitutions or exchanges of articles that are contemplated by the contract may be made without regard to cash repayments that may in the meantime have reduced the amount of the credit.

The views expressed above should be regarded as superseding the views expressed in any earlier interpretations under the regulation dealing with the same subject, including those expressed in our Circular No. 3634, dated December 27, 1950, and restated at pages 5 and 6 of our Circular No. 3687, dated April 2, 1951.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.