



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

124

R-894

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 26, 1941

Dear Sir:

There are enclosed for your information a copy of a letter addressed to Governor Ransom by the President of a Federal Reserve Bank under date of September 17, 1941, a copy of our reply, and a copy of a proposed draft of a letter which might be used in answering requests for advice as to the legality of forms of instalment contracts.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-894-a

FEDERAL RESERVE BANK OF

September 17, 1941

Mr. Ronald Ransom
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Governor Ransom:

Since writing you today, I have again talked with Mr. _____ and his associates in reference to instalment credit.

This procedure, which is developing, is disturbing. Dealers have a form of contract that they have used for a number of years; they may have copied it from someone else or they may have had their own attorney prepare it, it may comply with Regulation W and it may not. In some cases they change the terms so that they think it will comply with Regulation W and then send it in to us; in fact, in some cases their attorneys have done this and asked for our approval. Like all contracts of this character, a large percentage of it is in fine print.

To attempt to pass upon contracts from a legal as well as Regulation W standpoint is an impossible task. (As near as we can estimate there are some 15,000 or more dealers.) We of course are writing a courteous letter in each case explaining why we cannot assume this legal responsibility but, nevertheless, it is creating a bad feeling and I do not know what we can do about it other than what we are doing.

If you have any suggestions please write me.

Yours very truly,

September 26, 1941

Mr. _____, President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This is in response to your letter of September 17, 1941, regarding requests made by various dealers that the Federal Reserve Bank examine forms of instalment contracts submitted by such dealers and advise whether they comply with Regulation W and are otherwise legal.

It is unfortunate that your inability to comply with such requests is creating bad feeling but we agree with you that it is neither feasible nor appropriate for a Federal Reserve Bank to undertake to give such legal advice.

It is noted that you are writing a courteous letter in each case explaining why you cannot assume this responsibility; and it is believed that, if such letters are phrased in such a way as to enable the persons to whom they are addressed to understand clearly why the Federal Reserve Banks cannot comply with such requests, it will tend to reduce any resulting bad feeling to a minimum.

In an effort to be helpful in this connection, a draft of a letter which might be used for this purpose is enclosed for your consideration. It is believed that form letters should not be used for this purpose and that individual letters should be written in each case.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

R-894-c

Dear Mr. _____:

We have received your letter of _____, enclosing a form of instalment contract and requesting our advice as to whether it complies with Regulation W of the Board of Governors of the Federal Reserve System relating to Consumer Credit, and is otherwise legal.

We always desire to be as helpful as possible and wish very much that we could comply with your request. However, the necessity of giving prompt answers to a large number of specific questions arising under Regulation W is taxing the capacity of the staff trained for that work; and it is physically impossible for them to examine every instalment contract which might be submitted and advise whether it conforms to Regulation W. You will realize, of course, that we could not do this for you and refuse to do it for everyone else who requests it.

In the circumstances, we would suggest that you rely upon the advice of your own counsel, who should be able to study your form of contract in the light of Regulation W and the interpretations which have been issued thereunder and advise you not only whether your form of contract complies with the Regulation but also whether it complies with the State law and is otherwise valid and enforceable.

If there is any specific question about which your counsel feels unable to give you definite advice after studying Regulation W and the interpretations thereunder, we shall be glad to endeavor to answer any specific question which you or he may find it necessary to submit to us as promptly as the circumstances will permit.

Very truly yours,