

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers of
Monday, October 27, 1941.

October 25, 1941

The Board of Governors of the Federal Reserve System has adopted, effective December 1, 1941, several amendments to Regulation W, dealing with instalment credit. The amendments are mainly of an administrative and technical nature.

The amendments include adoption of the so-called "purpose test", requiring a borrower on an instalment loan, after January 1, 1942, to sign a statement as to the purpose of the loan; exempting business instalment loans from the Regulation, as well as loans to purchase or construct an entire building, and making the 18-month maximum maturity apply to all instalment loans of \$1,500 or less, instead of \$1,000 or less, as previously provided. In addition, more liberal provisions have been adopted to facilitate repayment of instalment loans by farmers in accordance with the seasonal nature of their income. Also, in the case of so-called "add-ons", options are provided -- either the additional credit may be treated separately, or the combined credit may be paid in 15 months, the monthly payments to be not less than they would have been without the add-on.

As amended, the Regulation closes the loophole whereby, although dealers in listed articles were required to obtain down payments, cash lenders were free to lend the full price unless the article was given as security

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for the loan.

Other provisions are as follows:

All instalment loans of \$1,500 or less which are not for the purpose of purchasing a listed article are made subject to the 18-month maturity limit (except modernization loans, where the figure remains \$1,000).

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

The extension of an instalment loan which is for the purpose of making a down payment on a listed article is prohibited.

All business loans are exempted from the Regulation unless they are for the purpose of purchasing listed articles.

The provision covering instalment credit for farmers permits any schedule of payments, if the down payment and maturity requirements of the Regulation are complied with, and if one-half of the balance is paid within the first half of the maximum maturity.

These amendments are effective December 1, 1941, and the provisions of the Regulation which were to have become effective on November 1 are postponed to December 1.

Distribution of copies of the amendments will be made by Federal Reserve Banks and branches.