

S-313
Reg. W-31
through
Reg. W-39

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

September 6, 1941

TELEGRAM

Federal Reserve Bank of

Boston

New York

Philadelphia

Cleveland

Richmond

Atlanta

Chicago

St. Louis

Minneapolis

Kansas City

Dallas

San Francisco

The following are inquiries received under Regulation W, and Board's answers thereto:

W-31. Question: Is consumer who knowingly violates or induces violation of regulation subject to criminal penalties? Answer: Knowing participation in violation may subject offender to criminal penalties.

W-32. Question: Section 8(f) line 6, do words "any other extension of credit" mean any other extension of instalment credit? Answer: Words quoted include but are not confined to other extensions of instalment credit.

W-33. Question: May a new furnace be purchased without down payment in emergency situations? Answer: Exceptions to down payment requirements are those stated in section 6, none of which extend to the situation described, and the exception inherent in section 5(b).

W-34. Question: Suppose bank loans on instalment basis or otherwise to a finance company secured by instalment contracts on listed articles. Must bank look to regularity of security? If bank is not required to examine each item of collateral, what is purpose of section 3(a)(2)(B)? Answer: So long as bank's payments arise only out of the loan as distinguished from the underlying obligation, it need not investigate underlying collateral. This is so that lender who takes such collateral will not be in worse position than one who lent unsecured. However, if and when lender attempts to obtain payments which arise out of the underlying obligation, i.e., to enforce the underlying obligation as distinguished from the loan, the lender is forbidden to receive the payments unless requirements of section

3(a)(2)(B) were met. This is so that registrant who loans upon instalment obligations will not be in more favorable position than one who discounts or purchases the obligation. To extent that registrant is willing to assume the business risk, he may lend on instalment obligation without inspection, realizing the disabilities which may appear later if it should become necessary to disregard loan and rely upon underlying instalment obligations. See W-5.

W-35. Question: If bank makes instalment loan under \$1,000, either secured by listed article or not secured at all, must bank take statement as to proposed use of proceeds of loan? Answer: Registrant is not required to take statement as to proposed use of proceeds in such cases irrespective of whether loan is secured by listed article. However, statement accepted in good faith by registrant will protect registrant as mentioned in 8(c) and in similar provisions.

W-36. Question: May bank make loan secured by listed article owned more than 45 days in order to make down payment on new listed article? Answer: Section 8(f) does not prohibit making a loan which will serve as down payment. It merely applies to registrant who is required to obtain the down payment (or required to limit loan to maximum credit value) and prohibits him from making the extension of credit if he knows or has reason to know of side loan for making the down payment.

W-37. Question: May bank make loan secured by listed article owned more than 45 days in order to pay in full the cash purchase price of a new listed article? Answer: Yes.

W-38. Question: Customer purchases from same seller listed articles on several different days. All purchases are put on open charge account without down payments with the understanding that when last article is purchased a definite contract will be made. If all purchases go into a single contract must the entire contract be dated back to the date of purchase of first article and must the 18 months run from that earliest date? Answer: If intention is for instalment payments, down payments should be obtained at times of different purchases. Similarly, 18 month maximum maturities would date from different purchases and need not go back to purchase of first article.

W-39. Question: When borrower makes bank loan on straight note for six months not payable in instalments is there anything in regulation to prohibit an agreement at the time of making the loan to renew the loan at the end of six-months period or at subsequent due dates? Answer: Question is not entirely clear and answer would depend on all relevant circumstances. There is nothing to prohibit agreement for renewal if renewal is to be made without reduction. However, if agreement is that renewal is to involve a reduction, loan would seem to be instalment credit and subject to requirements of the regulation.

(Signed) Chester Morrill

Morrill