

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

TELEGRAM

September 12, 1941

Young - Boston	Leach - Richmond	Peyton - Minneapolis
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A question has been received regarding the application of Regulation W to a case in which an automobile salesman sells his demonstrator. The question also relates to the purchase of the resulting obligation by the dealer-employer of the salesman.

The dealer-employer in such a case, who presumably is a Registrant as described in section 3 and also familiar with the particular transaction, may not in any event purchase the obligation unless it complies with the requirements of section 4. This is true because no Registrant may knowingly purchase any instalment sale obligation which fails to comply with section 4, regardless of who made the original extension of credit.

The regulation does not apply to an isolated extension of credit by a person who is not "engaged in the business" as described in section 3(a). However, it is important to note that, whatever the form in which the arrangement may be set up, an automobile salesman's financial interest in his demonstrator may represent a relationship that is substantially different from that of the ordinary automobile ownership. It may have the formal appearance of a purchase of the automobile by the salesman, when actually the demonstrator is in effect the property of the dealer-employer rather than the salesman. In such a case the sale of the demonstrator by the salesman should, for the purposes of the regulation, be treated like any other sale made by the salesman, i.e. as a sale made by him as agent for the dealer-employer, and hence should comply with the requirements of section 4 regardless of whether the obligation is purchased by the dealer-employer.

Morrill