

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMINTERPRETATION OF LAW OR REGULATION

September 19, 1941

W-72. Inquiries have been received regarding cases in which the original instalment purchaser of an automobile or other listed article arranges the transfer of his equity to another purchaser, the transfer of the equity being arranged directly between the parties and not by or through any dealer or other Registrant, and the Registrant holding the obligation is in effect asked to recognize or approve the transfer.

The Board is of the opinion that such a transfer of the automobile or other listed article subject to the original debt and lien may be made without restriction under the regulation provided the original purchaser (who is not a Registrant) remains liable on the contract and there is no change in the contract except the addition of the signature of the new purchaser.

However, if the original purchaser is released from his obligation under the contract, or if the terms of the contract are altered except by including the subsequent purchaser, or if a new contract is entered into between the Registrant and the subsequent purchaser, the same requirements would apply as if the Registrant were making an ordinary instalment sale of the listed article. In such event, if the listed article involved was, for example, an automobile and the subsequent purchaser agreed to pay \$600 for the automobile, the Registrant could not extend credit to him in excess of \$400.

It may be noted, of course, that under section 8(a) of the regulation the requirements stated in the preceding paragraph would not apply to action taken by the Registrant in good faith (1) with respect to any obligation of a member of the armed forces of the United States incurred prior to his induction into the service, or (2) for the Registrant's own protection in connection with any obligation which is in default and the subject of bona fide collection effort by the Registrant.