

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

September 20, 1941

W-77. An inquiry which may be stated as follows has been received under section 8(f) of Regulation W:

"A purchaser buys an automobile costing \$600 and tenders his old car, which is worth \$200, as the required down payment. Purchaser owed a finance company \$100 on the old car, which was part of its unpaid purchase price, but the purchaser was able to make arrangements with the finance company whereby the automobile was released as collateral to this loan and there was substituted therefor miscellaneous collateral other than listed articles and he was able to obtain a clear title for the purpose of making a trade-in. Assuming in each case that the Registrant involved knows or has reason to know of the \$100 transaction: (1) May a finance company, other than the one which extended credit on the old car, lend $66\frac{2}{3}$ per cent of the purchase price of the new car when the loan is secured by the new car? (2) May the finance company which extended credit on the old car make a separate loan to the same individual equal to $\frac{2}{3}$ of the purchase price of the new car when the collateral for the loan is the new car? (3) May a finance company make two loans to the purchaser, one secured by the new car equal to $\frac{2}{3}$ of its purchase price, the other secured by miscellaneous collateral other than listed articles, to pay the \$100 which the purchaser owes the other finance company?"

Section 8(f) in effect prohibits extensions of instalment sale credit under section 4, or of secured instalment loan credit under section 5(a), in any case in which "the Registrant making such extension of instalment credit knows or has reason to know that there is, or that there is to be, any other extension of credit in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchase beyond the maximum credit value of such article."

The down payment in the present case is represented by the old car, which is not sufficient for this purpose unless taken at its full value without regard to the amounts still owed by the customer for its purchase. The down payment therefore includes the \$100 of credit which is outstanding for the purchase of the old car, and the result is that this \$100 brings the total credit in connection with the transaction beyond the maximum credit value of the new car. Accordingly, when, as stated in the question, the Registrant knows or has reason to know of these facts, the extension of credit is prohibited in each of the three cases presented in the question.