



**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**
WASHINGTON

S-529

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1942

Dear Sir:

There is enclosed a copy of a letter dated June 17, 1942, to a Federal Reserve Bank regarding the applicability of Regulation W to the resale of an automobile by a financing institution which had a lien upon the automobile securing a loan. The letter states that the automobile may not be resold to a third person on terms which do not conform to the requirements of the Regulation.

In this connection, however, your attention is invited to a difference in wording between Sections 10(a)(1) and 10(a)(2). The latter exempts action taken "for the Registrant's own protection", but the former does not contain this limitation. Accordingly, under Section 10(a)(1), the contract with the obligor could be revised on any terms which the Registrant deemed necessary to protect the interests of the obligor.

Very truly yours,

A handwritten signature in black ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



S-529-a

June 17, 1942

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

In your letter of June 6, 1942, you asked whether a credit union, to which a member, who has been inducted into the armed forces, owes a \$200 balance on an automobile loan made prior to his induction, may sell the automobile for such member for \$600 and finance the entire purchase price for the new purchaser without regard to the requirements of Regulation W.

It is the Board's view that section 10(a)(1) would not permit the unregulated financing of the automobile for the new purchaser, since this clearly would be action by the Registrant "with respect to" the obligation of the new purchaser, rather than the obligation of the credit union member. On several occasions the Board has stated that an original extension of credit in similar circumstances to a subsequent purchaser would not be exempted from the regulation by section 10(a)(2). Under either sections 10(a)(1) or 10(a)(2), the fact that the resale to a new purchaser follows what you refer to as a bona fide collection effort, rather than an ordinary "repossession" of the automobile would not, in the usual case, lead to a different result. In addition, it should be noted that the opposite result would lead to an anomalous competitive situation between dealers, finance companies, and other financing institutions.

In this connection, it should be noted that the last paragraph of W-72 is merely intended to call attention to sections 10(a)(1) and 10(a)(2) rather than to apply them to the transactions described in the first three paragraphs of that interpretation.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.