

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-545

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1942



Dear Sir:

The following is an excerpt from a letter dated August 11, 1942, sent to a Federal Reserve Bank regarding Regulation W:

"This refers to your letters of June 1 and July 30, 1942, regarding the question whether, under Regulation W, a Registrant may purchase or discount an instalment obligation arising from the sale of an automobile on terms more liberal than those prescribed in the Regulation, if the obligation arose out of a bona fide transaction between two individuals not engaged in the business described in the Regulation and who were consequently not subject to its requirements.

"As your letter of June 1 indicates, the question is one with respect to which there may be reasonable differences of opinion. As you know, however, section 4 provides that 'each instalment sale shall comply' with the specified requirements applicable to the described obligations, and section 3(a) describes the persons who must observe these requirements. A person not 'engaged in the business' may extend credit without complying with section 4 only because he is exempt from section 3(a). Such exemption, however, is personal to the person making the casual transaction and it does not change the status of the paper or carry over to a subsequent purchaser thereof. It is the Board's view, therefore, that the fact that the credit was originally granted by a person who enjoyed such a personal exemption under section 3(a) does not alter the requirements that apply to the obligation and that must be followed by a Registrant who subsequently purchases or discounts the obligation.

FOR VICTORY



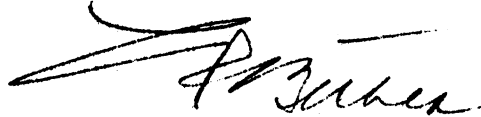
DICK FRASER

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Federal Reserve Bank of St. Louis

"On previous occasions when this question has been presented to it, the Board has referred to the second paragraph of W-57 as showing, according to the foregoing reasoning, that the Registrant may not purchase or discount the obligation if, at that time, it shows 'on its face' any failure to comply with section 4 or if the Registrant knew of any fact by reason of which it failed to comply with that section."

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS