

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-570

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 15, 1942.



Dear Sir:

The following is a copy of a letter dated today sent to a Federal Reserve Bank regarding Regulation W:

"Your letter of September 15 raises a question under Regulation W which has recently been considered by the Board in connection with credit cards issued by gasoline companies and others. The question relates to the status of a charge account where the buyer has given the seller a note for the amount due and the seller has transferred the note to another Registrant.

"The previous inquiries arose out of a regular course of dealing based on contracts between the various independent dealers and the issuer of the credit cards under which the issuer agrees to purchase all accounts receivable arising out of sales made by the dealers to the holders of the credit cards. The accounts are purchased without recourse (except in the case of fraud, etc.) and in the normal course of events the dealer receives his money immediately and hears nothing further regarding the account.

"The Board took the position that the dealer was the seller, and that consequently he was the 'Registrant' within the meaning of section 5(b). Consequently, if a customer did not pay his bill for articles purchased through a dealer, he could nevertheless purchase listed articles with his credit card from another dealer, and furthermore the issuer of the credit card would not be prevented by the Regulation from purchasing the account arising from the latter sale.

"On the other hand, if the dealer contemplated making further sales of listed articles on credit to the holder of the credit card, he would not be safe in so doing unless he found out from the issuer of the card whether the holder was in default on account of previous purchases from him.

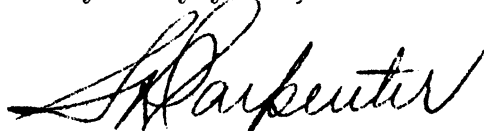


-2-

"In these cases there was no promissory note, but the results would be the same if there were a promissory note, in view of the definitions of 'charge sale' and 'charge account' in sections 2(f) and 2(g). Consequently, if the note were not paid (whether because it had been renewed or for any other reason) within the time prescribed in section 5(c), the account would be in default, unless the note had been renewed under such conditions as to constitute a 'cure' under section 5(d).

"With respect to your second question, the seller could take a renewal note without limitation as to maturity, since he would in effect be merely extending the time of payment of the account. The account would remain in default pending payment. On the other hand, if the bank accepted a renewal note payable to itself, it would in effect be making a loan the proceeds of which it knew would be used to retire a charge account, and the renewal would be subject to the restrictions applicable to such loans."

Very truly yours,

A handwritten signature in dark ink, appearing to read "S. R. Carpenter". The signature is fluid and cursive, with a large, sweeping "S" at the beginning.

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS