

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

139

S-577

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 3, 1942.

Dear Sir:

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

"This refers to your letter of October 20, 1942 asking four questions in connection with sections 4(e) and 5(h) of Regulation W added by Amendment No. 9. The questions arise out of a case where three coats are sent on approval to a customer with the understanding that the customer will select one coat and return the others.

"Your first question is whether the store should ascertain at the time the article is sent out whether the customer expects to pay cash, or expects to charge the coat, or expects to pay for it in instalments. You have informed the store that it should do so, and the Board agrees.

"Your second question is what down payment should be obtained if the coats are delivered in anticipation of an instalment sale. The answer is that the customer expects to buy only one coat, and therefore, only one coat is delivered 'in anticipation' of a sale. Therefore, the customer is required to deposit only an amount equal to the down payment which would be required on the most expensive of the three coats.

"Your third question deals with the case where the three coats are delivered on approval and the customer states that she expects to charge the coat which she selects. While the usual practice would probably be to charge all three coats to the customer's account at the time of delivery and to cancel the charge on two of them when returned to the store, section 5(h) only requires the store to charge one of them to the account for the reason discussed in the preceding paragraph. However, when the customer makes her selection and decides to keep



the coat, she states that she wishes to place the sale on an instalment basis, and you ask whether a down payment should be obtained.

"In such a case, the customer does not carry out the anticipation contemplated by section 5(h) and her failure to do so operates as a cancellation of the transaction there covered. Consequently, there is a new transaction, namely, an instalment sale, which is subject to all of the provisions of the Regulation applicable to such a sale, including the requirement that a down payment be obtained. Of course, the original delivery on approval without a down payment would have been a violation of sections 4(e), 5(a) and 11(a) if there had been any agreement or understanding, express or implied, that the coat would eventually be sold on instalments.

"Your fourth question relates to a case where the customer, having selected one of the three coats which were delivered on approval, returns it for alteration. Your question is whether the date of sale for default purposes is the date of delivery on approval or the date on which the coat is returned to the customer after alteration. This appears to be the same kind of a case as the second case discussed in S-563, and consequently the date of sale for purposes of determining whether or not the account is in default is the date on which the article is returned to the customer after alteration."

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS