A STUDY OF INSTALMENT CREDIT TERMS[1]

by

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Before Federal regulation of instalment buying expired on June 30, 1949, valuable data on terms of actual contracts were obtained as a by-product of the regular enforcement procedure. These data throw considerable light on the pattern of down payments and maturities on instalment sales of various commodities, and also provide interesting perspective on the operation of consumer credit regulation in a period when inflationary tendencies were becoming less pronounced.

Data for this study cover instalment contracts negotiated from September 20, 1948 through June 30, 1949, the period of renewed regulation authorized by Congress in August 1948. This period was unique in the history of Federal regulation of consumer credit. From the beginning of regulation in the fall of 1941 throughout the war and most of the postwar period the Board of Governors exercised its authority under Regulation W to dampen inflationary tendencies. Relatively stringent down-payment terms (typically one-third) and maturity requirements (typically 15 months) helped to restrain the volume of instalment credit creation and to keep it from adding excessively to purchasing power. In the early part of 1949 the need for inflationary safeguards became less important and consumer credit regulation had to be considered from the standpoint of possible deflationary developments.

This study examines the pattern of down payments and maturities that developed during the first half of 1949, largely as a consequence of the successive relaxations of Regulation W on March 7 and April 27. In order to determine the changes in actual terms which followed these amendments, instalment contracts were sampled to represent the following three intervals: September 20, 1948-March 6, 1949; March 7-April 26; and April 27-June 30.[2]

The commodities reviewed were all subject to Regulation W and included new and used automobiles, mechanical refrigerators, automatic washing machines, television sets, and console radios. These higher priced types of consumer durable goods were selected because most of the lower priced items were removed from control when the exemption limit was raised on April 27 from $50 to $100.

Some of the conclusions of the study are summarized briefly below:

1. Relaxations of Regulation W were followed by a substantial easing of actual terms, which probably contributed materially to high-level sales of automobiles and other durable goods during the second and third quarters of this year.

2. Despite the easing of terms, however, a large proportion of instalment contracts specified terms much stricter than required by Regulation W. In part this reflected the strong financial position of instalment buyers during the period under review. It also emphasized the point that, within the limits set by the regulation, retailers and lenders had discretion to offer terms that in their judgment were reasonable and in line with sound business principles.

3. Credit terms varied widely by commodity, particularly with respect to maturities. After the relaxations of Regulation W, terms tended to go much further toward the permissible limits for new passenger cars and refrigerators than for used automobiles and radios. Evidently considerations such as durability and resale value were among the factors which prevented terms in most cases from going to the limits permitted by the regulation.

4. Considerable variation in credit terms among

[1]Acknowledgment is extended to the Regulation W departments of the Federal Reserve Banks for making the basic data for this article available. These data were obtained by the Reserve Banks in the course of their regular review of instalment contracts subject to Regulation W. Responsibility for initiating the investigation was shared by Dale M. Lewis, formerly with the Board's Division of Bank Operations and now with the Federal Reserve Bank of St. Louis, and Francis R. Pawley, Clarke L. Fauver, and Milton Moss of the Board's Division of Research and Statistics.

[2] It is believed that the sample of instalment sales contracts drawn for this study is representative of transactions negotiated during the various periods, although it was not designed to produce a precise cross section in the sense of strict sampling procedure. The contracts obtained depended on the particular retailers and lenders visited by the Federal Reserve Bank staff.

Federal Reserve districts was also evident. It is difficult to assess the significance of this variation, however. The period studied was relatively short, and part of the divergence among districts may have disappeared after June 30, as relaxation of terms became more widespread.

5. Instalment credit terms have been further eased since Federal regulation was discontinued on June 30. The most favorable down-payment and maturity terms now prevailing are more lenient than the limits set by Regulation W. Although it is probable that the majority of borrowers do not receive the most liberal terms, the tendency seems to be toward progressively easier terms for all borrowers.

Easing of Credit Terms [3]

Changes in the distribution of actual contract terms following relaxation of requirements under Regulation W are summarized in Table 1. This table indicates that most contracts in the periods under study specified less lenient terms than those permitted by the regulation. At the same time, each easing of the regulation was followed by a marked general relaxation.

The large proportion of contracts with maturity terms more stringent than the permissible limits is evident for every commodity, both before and after each amendment to the regulation. In the period from September 20, 1948 to March 6, 1949, when the legal limit for repayment was 15-18 months, a significant proportion of the contracts for each commodity specified maturities shorter than the legal maximum. Contracts with maturities of 12 months or less, for example, accounted for at least 31 per cent of new car sales, and as much as 64 per cent of sales of console radios. In each of the two ensuing periods, namely March 7-April 26 when 21 months to pay was the legal maximum and April 27-June 30 when the 24-month maximum was in effect, the bulk of contracts for each commodity carried maturities shorter than the legal limit.

A similar pattern is evident for down payments. As shown in Table 1, the bulk of contracts for each commodity, after each relaxation, specified initial equities in excess of the minimum amounts required by regulation. Thus, within the regulatory limits, a substantial amount of discretion was exercised by lenders and retailers in setting instalment contract down payments and maturities.

Notwithstanding the general tendency for the bulk of credit to specify terms less lenient than the permissible limits, it is nevertheless important to emphasize the fact that there was a substantial relaxation of credit terms during the first half of 1949. A quantitative appraisal of the general relaxation which took place in the periods of this study can be made by an analysis of the changes in the percentage of contracts at or near the regulatory limits.

This can be done by first bearing in mind that the easing of credit terms which took place during the first half of 1949 conceivably could have affected two groups of potential instalment buyers. One group may have consisted of those who could have bought on terms in effect prior to the relaxations but who nevertheless wished to take advantage of the most lenient terms available. On the other hand, some people who were unable to meet the terms in effect prior to the relaxations may have been brought into the market by the easing of terms. In so far as relaxations of credit terms affected only the first group, the proportion of contracts at or near the regulatory limits should not have changed significantly. But to the extent that easing of terms affected the second group as well as the first, the proportion of contracts specifying lenient terms should have increased.

Table 1 shows that after each amendment to Regulation W there were significant increases in the proportion of contracts at or near the most lenient permissible term limits, implying that the relaxation of down payments and maturity requirements widened the market in addition to enabling a given group of buyers to take advantage of easier terms.

An examination of data on new car contracts, as shown in Table 1, provides a specific illustration of the significance of the changes occurring during the period under review.

[3] Effective March 7, 1949, maximum maturities prescribed by Regulation W were extended to 21 months from 15 months in the case of credits of $1,000 or less and from 18 months for those of more than $1,000. Minimum down payments on articles other than automobiles were lowered to 15 per cent from the previous minimum of 20 per cent. The April 27 amendment increased the maximum maturity on all regulated articles to 24 months and reduced the minimum down payment on articles other than automobiles to 10 per cent. The 33⅓ per cent down payment for automobiles was retained throughout the period of Regulation W. All articles priced at less than $100 were exempted by the April 27 amendment, whereas prior to that date the exemption limit was $50.

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Table 1

Instalment Contracts during Three Periods of Regulation, by Maturity and Down Payment

[Percentage distribution of contracts]

New Automobiles			
Maturity (in months) and down payment (as percentage of selling price)	Sept. 20, 1948–Mar. 6, 1949	Mar. 7–Apr. 26, 1949	Apr. 27–June 30, 1949
Maturity under contract:			
12 or less	31.0	22.2	19.9
13–18	68.9	28.8	22.5
19–23	0.1	48.8	11.1
24	0.0	0.2	46.5
Total	100.0	100.0	100.0
Average maturity	15.3	17.4	19.6
Regulation W maximum	[1] 15–18	21	24
Down payment under contract:			
33⅓	26.0	24.6	28.0
34–39	19.8	19.8	21.2
40–49	17.1	18.4	17.4
50 or over	37.1	37.2	33.4
Total	100.0	100.0	100.0
Average down payment	45.9	46.1	45.0
Regulation W minimum	33.3	33.3	33.3
Number of contracts [2]	9,501	9,400	15,451

Used Automobiles			
Maturity (in months) and down payment (as percentage of selling price)	Sept. 20, 1948–Mar. 6, 1949	Mar. 7–Apr. 26, 1949	Apr. 27–June 30, 1949
Maturity under contract:			
12 or less	49.4	40.9	43.3
13–18	50.5	39.1	35.3
19–23	0.1	19.9	8.5
24	0.0	0.1	12.9
Total	100.0	100.0	100.0
Average maturity	13.3	14.6	15.2
Regulation W maximum	[1] 15–18	21	24
Down payment under contract:			
33⅓	30.5	32.6	34.0
34–39	27.0	29.0	29.0
40–49	19.9	18.9	19.2
50 or over	22.6	19.5	17.8
Total	100.0	100.0	100.0
Average down payment	42.7	41.8	41.4
Regulation W minimum	33.3	33.3	33.3
Number of contracts [2]	15,364	17,004	26,487

Mechanical Refrigerators			
Maturity (in months) and down payment (as percentage of selling price)	Sept. 20, 1948–Mar. 6, 1949	Mar. 7–Apr. 26, 1949	Apr. 27–June 30, 1949
Maturity under contract:			
12 or less	45.0	30.8	25.5
13–18	54.8	33.9	24.4
19–23	0.2	35.1	15.2
24	0.0	0.2	34.9
Total	100.0	100.0	100.0
Average maturity	12.8	15.2	17.8
Regulation W maximum	[1] 15–18	21	24
Down payment under contract:[3]			
10–12	0.3	0.8	36.9
13–17	0.6	38.0	20.8
18–22	53.8	28.6	18.0
23 or over	45.3	32.6	24.3
Total	100.0	100.0	100.0
Average down payment	22.8	20.1	16.7
Regulation W minimum	20	15	10
Number of contracts [2]	6,961	8,068	16,788

Automatic Washing Machines			
Maturity (in months) and down payment (as percentage of selling price)	Sept. 20, 1948–Mar. 6, 1949	Mar. 7–Apr. 26, 1949	Apr. 27–June 30, 1949
Maturity under contract:			
12 or less	58.1	43.9	39.6
13–18	41.8	33.0	26.8
19–23	0.1	23.1	12.3
24	0.0	0.0	21.3
Total	100.0	100.0	100.0
Average maturity	12.1	14.0	15.7
Regulation W maximum	[1] 15–18	21	24
Down payment under contract:[3]			
10–12	0.2	0.7	34.3
13–17	0.9	37.6	21.2
18–22	56.2	30.9	21.7
23 or over	42.7	30.8	22.8
Total	100.0	100.0	100.0
Average down payment	22.7	20.0	16.8
Regulation W minimum	20	15	10
Number of contracts [2]	4,407	3,750	6,047

Television Sets			
Maturity (in months) and down payment (as percentage of selling price)	Sept. 20, 1948–Mar. 6, 1949	Mar. 7–Apr. 26, 1949	Apr. 27–June 30, 1949
Maturity under contract:			
12 or less	43.4	31.9	25.7
13–18	55.8	42.2	29.9
19–23	0.6	25.7	18.1
24	0.2	0.2	26.3
Total	100.0	100.0	100.0
Average maturity	12.8	14.7	17.2
Regulation W maximum	[1] 15–18	21	24
Down payment under contract:[3]			
10–12	0.0	0.4	19.1
13–17	2.0	22.5	23.9
18–22	47.9	34.8	22.4
23 or over	50.1	42.3	34.6
Total	100.0	100.0	100.0
Average down payment	23.0	21.2	18.7
Regulation W minimum	20	15	10
Number of contracts [2]	2,905	2,641	3,859

Console Radios			
Maturity (in months) and down payment (as percentage of selling price)	Sept. 20, 1948–Mar. 6, 1949	Mar. 7–Apr. 26, 1949	Apr. 27–June 30, 1949
Maturity under contract:			
12 or less	63.9	55.3	48.2
13–18	36.0	30.5	28.0
19–23	0.1	14.2	9.6
24	0.0	0.0	14.2
Total	100.0	100.0	100.0
Average maturity	11.8	12.9	14.4
Regulation W maximum	[1] 15–18	21	24
Down payment under contract:[3]			
10–12	0.4	0.4	28.7
13–17	1.4	32.0	17.5
18–22	52.6	32.7	22.2
23 or over	45.6	34.9	31.6
Total	100.0	100.0	100.0
Average down payment	22.8	20.4	18.0
Regulation W minimum	20	15	10
Number of contracts [2]	3,344	2,027	2,657

[1] Maximum of 18 months when principal amount was more than $1,000, provided monthly payment was not less than $70.
[2] Does not necessarily represent the relative importance to instalment selling of any one commodity in any period.
[3] Percentage of selling price after deduction of amount allowed for any trade-in.

The important point in analysis of this table is to assess the changes in the proportion of contracts at or near the regulatory limit. In comparing the distribution of contract maturities before and after each of the amendments it is necessary to refer to the class intervals which included the earlier as well as the amended term limits. Thus, with respect to new automobiles, in comparing the March 7-April 26 period with the pre-March 7 period we note that the percentage of contracts specifying 13 months or more rose from 69 to 78. In comparing the March 7-April 26 and the April 27-June 30 periods, the proper comparison must refer to contracts with maturities of 19 months or longer; the percentage of contracts with such maturities rose from 49 to 58 per cent. After each amendment, therefore, there was a significant increase in the percentage of contracts at or near the maximum repayment period.

Data in Table 1 for commodities other than automobiles likewise reveal a marked increase after each amendment in the percentage of contracts specifying the most liberable terms allowable.

The degree of actual relaxation of terms differed for the various commodities. Increases in the percentage of long-term contracts were more evident in credit sales of new automobiles and refrigerators, somewhat less marked for used cars and console radios. Down payments were eased considerably on contracts for commodities other than automobiles. They changed little on automobile transactions, largely as a result of the retention of the one-third requirement throughout the period of Regulation W. Smaller down payments after relaxations of Regulation W were more frequent in the case of refrigerators and washing machines than for console radios and television sets.

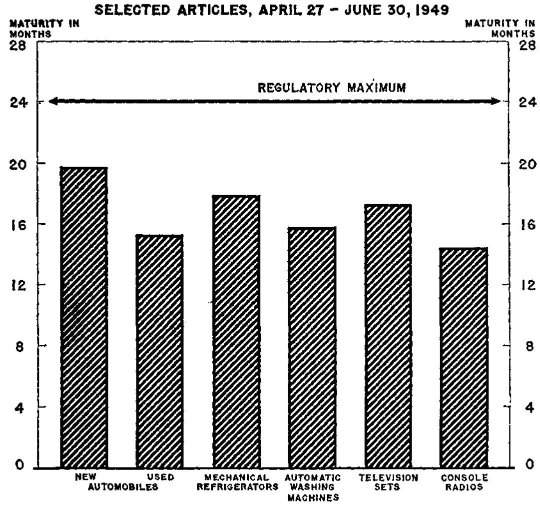
Many factors account for the variation in terms among the different commodities. A more detailed discussion of such factors follows in connection with an analysis of data for the April 27-June 30 period.

Commodity Variations in Credit Terms

The period after the April 27 relaxation of Regulation W provides an excellent opportunity to study forces at work in setting the terms available on instalment buying of various commodities. In the first place, a wider range of variation became possible because of the extension of regulatory limits: maximum maturities were permitted to go to 24 months, and required down payments were lowered to 10 per cent on all commodities except automobiles. Secondly, differences in strength of demand for various commodities were probably more pronounced during these months than during most of the postwar period. In consequence, a commodity comparison of credit terms during the April 27-June 30 interval is especially appropriate.

One of the patterns observed on contracts analyzed in this period is the variation in maturities, despite the fact that the 24-month regulatory maximum applied uniformly to all the articles studied. According to the chart, for example, instalment sales of new automobiles carried an average maturity of approximately 20 months, compared with an average of about 15 months for used cars.

AVERAGE MATURITY ON CONTRACTS
COMPARED WITH REGULATORY MAXIMUM
SELECTED ARTICLES, APRIL 27 - JUNE 30, 1949



Since in instalment sales the commodity purchased is traditionally the security for the credit advanced, durability and resale value of the commodity are likely to be decisive factors in setting credit terms. Such considerations help explain the differences in contract maturities between new and used cars, and also to some extent among the other commodities financed.

In the case of goods other than automobiles, instalment sales of mechanical refrigerators exhibited the longest average maturity. Console radios, at the other extreme, represented the transactions with the shortest average maturity. Several factors combine to lower the resale value, or hasten the depreciation of console radios, such as competition with television, the technological changes occurring in radio-phonograph combinations, and the fact that there has been an earlier satisfaction of backlog demands for radios than for most consumer durable goods.

Down-payment averages, shown in the second chart, illustrate a basic difference between automobiles and other articles, resulting largely from the much greater prevalence of trade-ins in the case of automobile purchases and the fact that Regulation W prescribed different minimum requirements. Average down payments on automobiles ranged from 41 per cent for used models to 45 per cent for new models. This compared with much lower averages of around 17 and 18 per cent for other articles.

A minor complicating factor in these data relates to a provision of Regulation W which specified

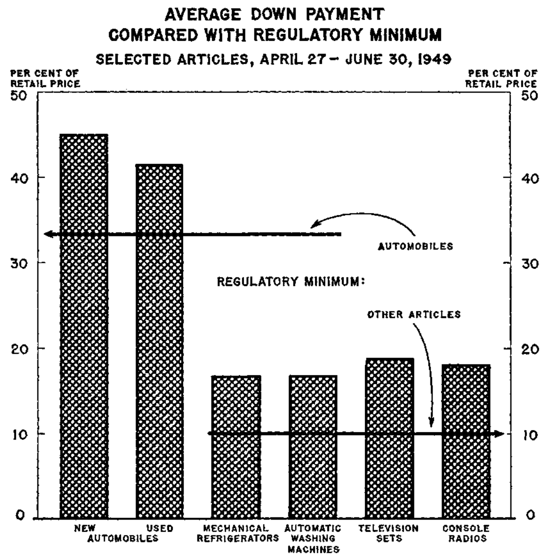


TABLE 2

AVERAGE TERMS OF INSTALMENT CONTRACTS ON SELECTED ARTICLES AND PROPORTION OF CONTRACTS AT REGULATORY LIMITS
BY FEDERAL RESERVE DISTRICTS, APRIL 27-JUNE 30, 1949

Articles and terms	All districts	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
New automobiles—													
Maturity:													
Average (in months)	19.6	18.6	19.0	18.5	18.0	19.3	19.5	18.7	18.8	17.2	16.9	20.4	20.5
Percentage at maximum	46.5	37.1	43.0	38.1	46.1	49.5	56.5	44.1	43.9	23.6	27.3	57.7	61.8
Down payment:													
Average (percentage of retail price)	45.0	44.2	46.1	47.4	47.3	44.1	42.9	46.3	42.0	42.3	44.0	40.4	45.5
Percentage at minimum	28.0	35.0	19.5	15.7	17.1	38.5	41.9	25.4	35.9	44.0	26.9	56.0	22.8
Used automobiles—													
Maturity:													
Average (in months)	15.2	15.9	16.1	14.7	15.5	14.7	14.9	15.1	15.6	13.6	13.7	15.3	15.2
Percentage at maximum	12.9	15.7	16.6	7.7	16.5	9.9	10.2	14.1	16.7	3.6	5.0	13.6	14.9
Down payment:													
Average (percentage of retail price)	41.4	41.8	42.9	42.1	42.1	41.0	41.5	40.9	40.4	41.5	41.7	39.3	40.8
Percentage at minimum	34.0	41.8	27.0	24.4	26.3	40.6	31.6	38.0	35.1	45.1	35.1	55.1	31.1
Mechanical refrigerators—													
Maturity:													
Average (in months)	17.8	18.4	18.0	18.2	16.2	16.3	19.2	15.8	18.2	15.6	16.8	19.6	18.6
Percentage at maximum	34.9	37.7	37.4	33.7	21.8	25.6	45.8	21.6	39.4	17.6	26.6	49.0	40.3
Down payment:													
Average (percentage of net price)	16.7	16.9	17.0	17.1	17.3	17.2	14.9	17.9	17.0	17.9	17.3	14.6	16.4
Percentage at minimum	36.9	35.5	33.2	34.5	32.5	33.6	50.1	27.7	35.4	30.0	31.9	49.7	37.4
Automatic washing machines—													
Maturity:													
Average (in months)	15.7	17.1	16.6	15.7	13.7	14.3	16.5	13.6	15.5	13.4	13.1	17.9	16.9
Percentage at maximum	21.3	26.2	27.2	14.1	8.9	13.9	27.6	8.7	22.6	8.1	7.3	35.8	33.0
Down payment:													
Average (percentage of net price)	16.8	16.7	16.5	16.6	17.3	17.3	15.0	18.4	16.3	19.5	18.8	15.2	17.2
Percentage at minimum	34.3	32.4	34.3	36.6	30.4	30.0	48.2	22.2	39.1	19.8	25.5	44.1	34.5
Television sets—													
Maturity:													
Average (in months)	17.2	16.8	16.9	18.9	13.6	17.4	15.3	15.2	16.1	13.3	13.3	15.8	17.2
Percentage at maximum	26.3	22.9	25.0	33.8	5.2	27.0	18.8	18.9	20.9	0.0	0.0	22.2	29.8
Down payment:													
Average (percentage of net price)	18.7	18.4	19.3	18.7	20.2	17.0	18.0	18.3	19.3	17.5	24.0	16.2	18.3
Percentage at minimum	19.1	26.3	17.0	15.1	11.1	24.5	31.3	24.6	18.9	0.0	0.0	33.3	18.8
Console radios—													
Maturity:													
Average (in months)	14.4	16.6	16.5	13.6	13.2	13.3	13.5	13.3	13.8	13.3	14.0	17.3	14.2
Percentage at maximum	14.2	25.2	28.5	5.7	5.2	4.1	8.0	5.9	11.1	6.7	13.2	33.3	33.8
Down payment:													
Average (percentage at net price)	18.0	18.9	16.7	18.3	19.2	19.5	15.8	19.8	18.0	17.6	18.4	14.8	17.9
Percentage at minimum	28.7	21.3	37.4	23.6	20.7	18.4	44.8	16.7	28.1	35.6	28.7	53.2	26.0

that the down payment on an automobile purchase might include a trade-in allowance, whereas it had to be entirely cash for other goods. Thus for non-automobile goods the down payment was computed as a percentage of the net price after deduction of the amount allowed for the trade-in. Although trade-ins play a relatively small role in the sale of non-automobile goods, it is probable that the average down payment on these goods would have been slightly larger than indicated in the chart if the trade-in allowance had been included in the down payment.

Analysis by Federal Reserve districts reveals considerable divergence in the pattern of credit terms. These variations are shown in Table 2.

The acceptance of 24-month maximum maturities on new car contracts, for example, varied widely among the different sections of the country, ranging from about one-fourth of all new car transactions in the Minneapolis and Kansas City Districts to more than three-fifths in San Francisco. On console radios and television sets an even greater divergence was evident.

This lack of uniformity probably reflected in part adjustments to regional conditions of standards set by finance companies and trade associations operating on a nation-wide basis. It is also possible, however, that the district variations reflect temporary conditions to some extent and that the differences later became less marked.

Further detail on credit terms during the April 27-June 30 period for each of the selected com-

TABLE 3

RELATION BETWEEN DOWN PAYMENTS AND MATURITIES OF INSTALMENT CONTRACTS ON SELECTED ARTICLES

[Percentage distribution of contracts, April 27–June 30, 1949]

New Automobiles

Down payment (Percentage of retail price)	Maturities (in months): 12 or less	13–18	19–23	24 [1]	Total
33⅓ [2]	2.9	5.1	3.3	16.7	28.0
34–39	2.2	4.7	3.1	11.2	21.2
40–49	2.5	4.1	2.3	8.5	17.4
50 and over	12.3	8.6	2.4	10.1	33.4
Total	19.9	22.5	11.1	46.5	100.0

Used Automobiles

Down payment (Percentage of retail price)	Maturities (in months): 12 or less	13–18	19–23	24 [1]	Total
33⅓ [2]	13.8	12.1	3.1	5.0	34.0
34–39	10.7	11.3	2.8	4.2	29.0
40–49	8.6	6.9	1.6	2.1	19.2
50 and over	10.2	5.0	1.0	1.6	17.8
Total	43.3	35.3	8.5	12.9	100.0

Mechanical Refrigerators

Down payment (Percentage of net price)	Maturities (in months): 12 or less	13–18	19–23	24 [1]	Total
10–12 [3]	4.4	6.7	4.8	21.0	36.9
13–17	3.8	5.7	5.2	6.1	20.8
18–22	5.4	6.1	2.9	3.6	18.0
23 and over	11.9	5.9	2.3	4.2	24.3
Total	25.5	24.4	15.2	34.9	100.0

Automatic Washing Machines

Down payment (Percentage of net price)	Maturities (in months): 12 or less	13–18	19–23	24 [1]	Total
10–12 [3]	9.2	8.2	4.2	12.7	34.3
13–17	6.7	7.5	3.5	3.5	21.2
18–22	10.0	6.5	2.7	2.5	21.7
23 and over	13.7	4.6	1.9	2.6	22.8
Total	39.6	26.8	12.3	21.3	100.0

Television Sets

Down payment (Percentage of net price)	Maturities (in months): 12 or less	13–18	19–23	24 [1]	Total
10–12 [3]	3.5	3.5	3.7	8.4	19.1
13–17	3.7	7.5	5.8	6.9	23.9
18–22	4.1	8.2	4.8	5.3	22.4
23 and over	14.4	10.7	3.8	5.7	34.6
Total	25.7	29.9	18.1	26.3	100.0

Console Radios

Down payment (Percentage of net price)	Maturities (in months): 12 or less	13–18	19–23	24 [1]	Total
10–12 [3]	10.5	7.2	3.5	7.5	28.7
13–17	6.8	6.9	2.0	1.8	17.5
18–22	11.0	7.0	1.9	2.3	22.2
23 and over	19.9	6.9	2.2	2.6	31.6
Total	48.2	28.0	9.6	14.2	100.0

[1] Regulation W maximum.
[2] Regulation W minimum.
[3] Regulation W minimum was 10 per cent.

modities is presented in the series of cross classifications given in Table 3, which show the interrelation between down payments and maturities.

Analysis of these tables indicates that a preponderance of contracts for the articles investigated carried either a down payment or a maturity more stringent than required by Regulation W. In the case of new automobiles, only 17 per cent of all contracts indicated both the minimum down payment of one-third and the maximum maturity of 24 months. It follows that 83 per cent of the contracts specified either a down payment or a maturity less liberal than the regulatory limits. Of the contracts for used cars, 95 per cent were in the category having either a down payment or a maturity more strict than required by Regulation W. For the other commodities, this proportion was also quite high, varying from about 92 per cent for console radios to approximately 80 per cent for mechanical refrigerators.

The large proportion of terms that were more strict than the regulatory limits bears testimony to the strong financial position of instalment buyers as well as to the policy of instalment financing agencies in the period surveyed. The fact that consumers were able to make down payments much higher than the required minimum implies a strong asset position, and their agreement to repay the unpaid balance in a much shorter time than the maximum implies a strong income position. With respect to maturities it is well to bear in mind that the figures pertain to original contract terms. There is no information on the extent to which these terms have been either shortened via prepayment or lengthened as a result of refinancing or delinquency in meeting payments.

Table 4

Contracts with Minimum Down Payments as Percentage of All Contracts in Each Maturity Group, by Selected Articles, April 27–June 30, 1949

Article	Maturity (in months)			
	12 or less	13–18	19–23	24
New automobiles	14.6	22.7	29.7	35.9
Used automobiles	31.9	34.3	36.5	38.8
Mechanical refrigerators	17.3	27.5	31.6	60.2
Automatic washing machines	23.2	30.6	34.1	59.6
Television sets	13.6	11.7	20.4	31.9
Console radios	21.8	25.7	36.5	52.8

Note.—Minimum down payments for new and used automoblies were 33⅓ per cent, and for all other articles 10 per cent.

Another interesting point brought out by the data in Table 3 is that contracts with maturities of 19-23 months constituted the smallest percentage of the total for every commodity investigated. It is probable that in consumer instalment financing there is a preference by credit agencies and/or consumers for evenly spaced maturities such as 12, 18, and 24 months.

Further examination of the interrelation between down payments and maturities indicates that long repayment periods tend to be associated with small down payments. This tendency is illustrated in Table 4, which shows that the percentage of contracts with minimum down payments is highest in the longer maturity classifications. All commodities exhibited this tendency but refrigerators offer the clearest illustration. Among the refrigerator contracts specifying 24-month maturities, 60 per cent specified the 10 per cent minimum down payment, whereas among the contracts for 12 months or less, only 17 per cent specified the minimum down payment.

Appraisal and Outlook

The nature of the role played by down-payment and maturity terms for consumer instalment credit in the postwar period was brought into sharp focus in the first half of 1949. Throughout most of the postwar period, relatively stringent credit terms exercised restraint on the extent to which credit might augment the pent-up demand for durable goods. In the first half of 1949, when inflationary demand appeared to be ebbing, the easing of credit terms first on March 7 and again on April 27 probably helped to maintain a high level of expenditures for consumer durable goods.

It has been commonly supposed that consumer credit regulation is more effective in restraining upswings in business activity than in moderating downturns. In a period of business decline, most consumers who suffer reduced incomes are unlikely to buy expensive goods regardless of terms. In the period under consideration, however, adjustments in some lines of activity did not result in widespread declines in income. At such times, when weakening demand coincides with sustained rather than declining incomes, the easing of credit terms should be especially effective in stimulating consumer demand.

A further easing of terms has unquestionably occurred since the termination of Regulation W.

It is difficult to appraise the extent of this relaxation because of a lack of quantitative information similar to the data of this study. Nevertheless, available evidence indicates that instances of instalment terms more lenient than those permitted by Regulation W have arisen in all areas of instalment financing, among banks, finance companies, and major retailers, in nearly all commodity lines, and in all sections of the country.

This study seems to suggest that the bulk of consumer instalment credit is not generally advanced on the most lenient terms available. The study also shows, however, that instalment credit terms are usually eased all along the line when the most lenient terms in use are further relaxed. This seems to be the present tendency of consumer instalment credit.

CURRENT EVENTS AND ANNOUNCEMENTS

Death of Member of the Board

The Board of Governors announces with the deepest regret the death of Mr. Lawrence Clayton on December 4, 1949. Mr. Clayton had been a member of the Board of Governors since February 1947. Previously he had been in both the commercial and investment banking business. He was Vice President of the First National Bank of Ogden, Utah, at the time he first became associated with the Board of Governors in December 1934, as Assistant to the Chairman of the Board, which position he held until he resigned to enter investment banking in the beginning of 1945.

Federal Reserve Meetings

A meeting of the Federal Open Market Committee was held in Washington on December 13, 1949.

The Conference of Presidents of the Federal Reserve Banks met with the Board of Governors of the Federal Reserve System in Washington on December 14, 1949.

Chairmen's Conference

In preparing the annual index for the BULLETIN it has been noticed that mention was not made in the June 1949 issue of a meeting of the Chairmen of the Federal Reserve Banks, also attended by members of the Board of Governors, which was held on May 28-30, 1949.

Correction for "Measurements of Savings" November 1949 BULLETIN

On page 1312 of the November Federal Reserve BULLETIN, Table 1 should be corrected as follows: The subtotals given in line N for "Financial Uses (net)" in the years 1939 and 1946 should be changed to 4.8 and 15.4, respectively.

Admissions of State Banks to Membership in the Federal Reserve System

The following State banks were admitted to membership in the Federal Reserve System during the period October 16, 1949 to November 15, 1949:

California

Lynwood—First State Bank of Lynwood

West Virginia

Ranson—Blakeley Bank and Trust Company