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Texts of Documents Regarding
Government Regulation of Con-
sumer Instalment Credit



Texts of Documents Regarding Government Regulation of Con- sumer Instalment Credit

EXECUTIVE ORDER NO. 8843

REGULATION OF CONSUMER CREDIT

DECLARATION OF NECESSITY AND PURPOSE

WHEREAS a large volume of credit is being devoted to financing and refinancing purchases of consumers' goods and services through extensions of credit that usually are made to individuals and to a large extent are on an instalment payment basis; and

WHEREAS the conditions under which such credit is available have an important influence upon the volume and timing of demand, not only for the particular goods and services purchased on credit but also for goods and services in general; and

WHEREAS liberal terms for such credit tend to stimulate demand for consumers' durable goods the production of which requires materials, skills, and equipment needed for national defense; and

WHEREAS the extension of such credit in excessive volume tends to generate inflationary developments of increasing consequence as the limits of productive capacity are approached in more and more fields and to hinder the accumulation of savings available for financing the defense program; and

WHEREAS the public interest requires control of the use of instalment credit for financing and refinancing purchases of consumers' durable goods the production of which absorbs resources needed for national defense, in order (a) to facilitate the transfer of productive resources to defense industries, (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand, (c) to assist in restraining general inflationary tendencies, to support or supplement tax-

tion imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program, (d) to aid in creating a backlog of demand for consumers' durable goods, and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the post-defense period; and

WHEREAS in order to prevent evasion or avoidance of this order and such regulations as may be prescribed to effectuate its purposes, means should also be available for regulating the use of other instalment credit and other forms of credit usually extended to consumers or on consumers' durable goods; and

WHEREAS it is appropriate that such credit be controlled and regulated through an existing governmental agency which has primary responsibilities with respect to the determination and administration of national credit policies:

Now, THEREFORE, by virtue of the authority vested in me by section 5(b) of the act of October 6, 1917, as amended, and by virtue of all other authority vested in me, and in order, in the national emergency declared by me on May 27, 1941, to promote the national defense and protect the national economy, it is hereby ordered as follows:

ADMINISTRATION

Section 1. (a) The Board of Governors of the Federal Reserve System (hereinafter called the Board) is hereby designated as the agency through which transfers of credit between and payments by or to banking institutions (as defined herein pursuant to section 5(b) of the aforesaid Act) which constitute, or arise directly or indirectly out of, any extension of credit of a type set out in section 2(a) of this order shall be investigated, regulated and prohibited.

(b) The Board shall, whenever it deems such action to be necessary or appropriate, take any lawful steps herein authorized and such other lawful steps as are within its power to carry out the purposes of this order, and may, in administering this order, utilize the services of the Federal Reserve Banks and any other agencies, Federal or State, which are available and appropriate.

(c) In order to facilitate the coordination of the Board's functions under this order with other phases of the program for national defense and for protecting the national economy, there shall be a committee consisting of the Secretary of the Treasury, the Federal Loan Administrator, and the Administrator of the Office of Price Administration and Civilian Supply, or such

alternate as each shall designate, and such other members as the President shall subsequently appoint. The Board shall maintain liaison with the committee, and in formulating policies with respect to down-payments, maturities, terms of repayment, and other such questions of general policy shall consult with the committee and take into consideration any suggestions or recommendations it may make.

REGULATIONS

Section 2. (a) Whenever the Board shall determine that such action is necessary or appropriate for carrying out the purposes of this order, the Board shall prescribe regulations with respect to transfers and payments which constitute, or arise directly or indirectly out of, any extension of instalment credit for the purpose of purchasing or carrying any consumers' durable good except a residential building in its entirety; and the Board may in addition, to the extent deemed by it to be desirable and feasible in order to prevent evasion of such regulations as may be so prescribed or in order to control forms of credit the use of which might defeat the purposes of this order and such regulations, prescribe regulations with respect to transfers and payments which constitute, or arise directly or indirectly out of, (1) any other extension of instalment credit, or (2) any other extension of credit for the purpose of purchasing or carrying any consumers' durable good, or (3) any other extension of credit in the form of a loan other than a loan made for business purposes to a business enterprise or for agricultural purposes to a person engaged in agriculture. Such regulations may be prescribed by the Board at such times and with such effective dates as the Board shall deem to be in accordance with the purposes of this order.

(b) Such regulations may from time to time, originally or by amendment, regulate or prohibit such transfers and payments or exempt them from regulation or prohibition and may classify them according to the nature of the transactions or goods or persons involved or upon such other basis as may reasonably differentiate such transfers and payments for the purposes of regulations under this order, and may be made applicable to one or more of the classes so established; and, without limiting the generality of the foregoing, such regulations may require transactions or persons or classes thereof to be registered or licensed; may prescribe appropriate limitations, terms, and conditions for such registrations or licenses; may provide for sus-

pension of any such registration or license for violation of any provision thereof or of any regulation, rule, or order prescribed hereunder, may prescribe appropriate requirements as to the keeping of records and as to the form, contents, or substantive provisions of contracts, liens, or any relevant documents; may prohibit solicitations by banking institutions which would encourage evasion or avoidance of the requirements of any regulation, license, or registration under this order; and may from time to time make appropriate provisions with respect to—

(1) The maximum amount of credit which may be extended on, or in connection with any purchase of, any consumers' durable good;

(2) The maximum maturity, minimum periodic payments, and maximum periods between payments, which may be stipulated in connection with extensions of credit;

(3) The methods of determining purchase prices or market values or other bases for computing permissible extensions of credit or required down-payments; and

(4) Special or different terms, conditions, or exemptions with respect to new or used goods, minimum original cash payments, temporary credits which are merely incidental to cash purchases, payment or deposits usable to liquidate credits, and other adjustments or special situations.

(c) On and after the effective date of any regulation prescribed by the Board with respect to any extension of credit of a type set out in section 2(a), and notwithstanding the provisions of any other proclamation, order, regulation, or license under the aforesaid Act, all transfers and payments which are in violation of such regulation shall be and hereby are prohibited to the extent specified in such regulation.

(d) Neither this order nor any regulation issued thereunder shall affect the right of any person to enforce any contract, except that after the effective date of any such regulation every contract which is made in connection with any extension of credit and which violates, or the performance of which would violate, any provision of such regulation (other than a provision designated therein as being for administrative purposes), and every lien, pledge, seller's interest in a conditional sale, or other property interest, subject to the provisions of such contract or created in connection therewith, shall be unenforceable by the person who extends such credit or by any person who acquires any right of such person in such contract; provided that such disability shall

not apply to any person who extends such credit, or acquires such right for value, in good faith and without knowing or having reason to know the facts by reason of which the making or performance of such contract was or would be such a violation.

REPORTS

Section 3. Reports concerning the kinds, amounts, and characteristics of any extensions of credit subject to this order, concerning transfers and payments which arise out of any such extensions of credit, or concerning circumstances related to such extensions of credit or such transfers or payments or to the regulation thereof, shall be filed on such forms, under oath or otherwise, at such times and from time to time, and by such persons, as the Board may prescribe by rule, regulation, or order as necessary or appropriate for enabling the Board to perform its functions under this order. The Board may require any person to furnish, under oath or otherwise, complete information relative to any transaction within the scope of this order, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person.

DEFINITIONS

Section 4. For the purposes of this order, unless the context otherwise requires, the following terms shall have the following meanings, provided that the Board may in its regulations give such terms more restricted meanings:

(a) "Person" has the meaning set forth in section 5(b) of the act of October 6, 1917, as amended.

(b) "Transfers and payments" means "transfers of credit between and payments by or to banking institutions".

(c) "Banking institution" means any person engaged as principal, agent, broker, or otherwise, in the business of making or holding extensions of credit and includes, without limitation, any bank, any loan company, and finance company, or any other person engaged in the business of making or holding extensions of credit whether as a vendor of consumers' durable goods or otherwise.

(d) "Consumers' durable good" includes any good, whether new or used, which is durable or semi-durable and is used or usable for personal, family or household purposes, and any service connected with the acquisition of any such good or of any interest therein.

(e) "Extension of credit" means any loan or mortgage; any instalment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim or property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

(f) An extension of credit is an extension of "instalment credit" if the obligor undertakes to repay the credit in two or more scheduled payments or undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or if the extension of credit has a similar purpose or effect, or if it is for the purpose of financing a business enterprise which makes such extensions of credit.

(g) An extension of credit is "for the purpose of purchasing or carrying any consumers' durable good" if it is directly or indirectly for the purpose of financing or refinancing the purchase of any consumers' durable good or is directly or indirectly secured by any consumers' durable good, or if the extension of credit has a similar purpose or effect, or if it is for the purpose of financing a business enterprise which makes such extensions of credit.

PENALTIES

Section 5. Whoever willfully violates or knowingly participates in the violation of this order or of any regulation prescribed hereunder, shall be subject to the penalties applicable with respect to violations of section 5(b) of the said act of October 6, 1917, as amended.*

(Signed) FRANKLIN D. ROOSEVELT.

The White House,
August 9, 1941.

* The section reads in part: "Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both."

FOREWORD

[printed with, but not a part of, the regulation]

Regulation W has been adopted by the Board of Governors in order to carry out the President's Executive Order of August 9, 1941, which sets forth the necessity for and purpose of regulation of consumer credit . . . [there follow the seven points constituting the "Declaration of Necessity and Purpose" at the beginning of the Executive Order].

Regulation W is issued in the light of the foregoing considerations and as a step supplementing more fundamental governmental measures designed to combat inflationary developments.

There will be changes from time to time in this regulation, particularly in the list of consumers' durable goods covered by the regulation, in the size of the minimum down payments required, and in the maximum length permitted for instalment contracts.

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank or the Federal Reserve branch bank of the district in which the inquiry arises.

[Regulation W was adopted August 21, 1941. The following is a reprint of the regulation as amended by Amendment No. 1 (effective September 20, 1941, and referring to Part 3(a) of the Supplement), Amendment No. 2 (effective December 1, 1941, and referring to sections 2(e), 4(e), 5, 6(a), 6(l), 8(a), 8(b), 8(c), 8(d), 9(f), 10 of the regulation and Part 4 of the Supplement) and Amendment No. 3 (effective March 23 and April 1, 1942, and referring to sections 3(b), 4(f), 5(d), 6(e), 6(j), 6(k), 8(a), 8(b), 8(d), 9(d), 10 of the regulation and all of the Supplement).]

REGULATION W

CONSUMER CREDIT

SECTION 1. SCOPE OF REGULATION

This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the "Board") under authority of section 5(b) of the Act of October 6, 1917, as

amended, and Executive Order No. 8843, dated August 9, 1941 (hereinafter called the "Executive Order").¹

The regulation applies, in general, to any person who is engaged in the business of making extensions of instalment credit, or of discounting or purchasing obligations arising out of extensions of instalment credit. It applies whether the person so engaged is acting as principal, agent, broker or otherwise, and whether the person is a bank, loan company, or finance company, or a person who is so engaged in connection with any other business, such as by making such extensions of credit as a dealer, retailer, or other person in connection with the selling of consumers' durable goods.²

SECTION 2. DEFINITIONS

For the purposes of this regulation, unless the context otherwise requires:

(a) "**Person**" means an individual, partnership, association, or corporation.

(b) "**Extension of Credit**" means any loan or mortgage; any instalment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim on property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

(c) "**Extension of Instalment Credit**" means an extension of credit which the obligor undertakes to repay in two or more scheduled payments or as to which the obligor undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or which has a similar purpose or effect.

(d) "**Extension of Instalment Sale Credit**" means an extension of instalment credit which is made, as principal, agent or broker, by any seller of any consumers' durable good specified in the

¹ . . . it has been the purpose to couch this regulation in such terms as will eliminate the need of cross reference to the Order.

² The Supplement to this regulation lists the consumers' durable goods within the scope of the regulation.

Supplement to this regulation (hereinafter called a "listed article") and arises out of the sale of such listed article. For the purposes of this section 2(d) a lease or bailment which is similar in purpose or effect to a sale shall be deemed to be a sale.

(e) "**Extension of Instalment Loan Credit**" means an extension of instalment credit, other than instalment sale credit, which is a loan (as distinguished from other types of extensions of credit) and which (1) is in a principal amount of \$1,500 or less, or (2) regardless of amount, is wholly or partly secured, or according to any oral or written agreement of the parties is to become so secured, by any listed article which has been purchased within 45 days prior to, or is to be purchased at any time after, such extension of instalment credit; but the definition does not include any *loan upon the security of any obligation or claim* which arises out of any extension (A) of instalment sale credit or (B) of instalment loan credit as defined above in this section 2(e).

SECTION 3. REGISTRATION AND GENERAL REQUIREMENTS

(a) **General Requirements.**—No person engaged in the business of making extensions of instalment sale credit⁸ or instalment loan credit, or engaged in the business of lending on the security of or discounting or purchasing obligations or claims arising out of such extensions of credit, shall make any payment or receive any payment which constitutes or arises directly or indirectly out of any such extension of credit made by such person or out of any such obligation or claim lent on or discounted or purchased by such person, except on the following conditions:

(1) Such person shall be licensed pursuant to this section (any person so licensed being hereinafter called a "Registrant"); and

(2) The Registrant shall not make any such payment or receive any such payment (A) if, when the Registrant made the extension of instalment credit, the Registrant knew or had reason to know any fact by reason of which such extension of instalment credit failed to comply with any of the requirements of this regulation applicable thereto, or (B) if, when the Registrant purchased or discounted the obligation or claim or accepted the obligation or claim as collateral, the obligation or claim showed on its face some failure to comply with such requirements, or the Registrant

⁸ It is to be noted that the term "instalment sale credit" includes only credit connected with the sale of listed articles.

knew any fact by reason of which the extension of instalment credit giving rise to the obligation or claim failed to comply with such requirements, or (C) if, when the Registrant renewed, revised, or consolidated the obligation or claim arising out of an extension of instalment credit, the Registrant knew or had reason to know any fact by reason of which such renewal, revision or consolidation resulted in a failure to comply with such requirements.

(b) **General License.**—Whenever this regulation is amended so that any person who was not formerly subject to section 3(a) becomes subject thereto, such person is hereby granted a general license; but such general license shall terminate at the end of the second full calendar month after the month in which the amendment becomes effective unless such person has registered, in the manner provided in section 3(c), before such termination. Any person whose license is not suspended may become licensed by registering in the manner provided in section 3(c).

(c) **Registration.**—Registration as required by this section 3 may be accomplished by filing, with the Federal Reserve Bank of the district in which the main office of the Registrant is located, a registration statement on forms obtainable from any Federal Reserve Bank or branch.

(d) **Suspension of License.**—The license of any Registrant may, after reasonable notice and opportunity for hearing, be suspended by the Board, either in its entirety or as to particular activities or particular offices or for specified periods, on any of the following grounds:

- (1) Any material misstatement or omission willfully or negligently made in the registration statement;
- (2) Any willful or negligent failure to comply with any provision of this regulation or any requirement of the Board pursuant thereto.

A license which is suspended for a specified period will again become effective upon the expiration of such period. A license which is suspended indefinitely may be restored by the Board, in its discretion, if the Board is satisfied that its restoration would not lead to further violations of this regulation and would not be otherwise incompatible with the public interest.

SECTION 4. INSTALMENT SALE CREDIT

Except as otherwise permitted by section 6, any extension of

instalment sale credit shall comply with the following requirements:

(a) **Maximum Amount of Credit.**—The deferred balance shall not exceed the maximum credit value of the listed article specified in the Supplement to this regulation (hereinafter called the "Supplement");

(b) **Maximum Maturity.**—The maturity shall not exceed that specified for the listed article in the Supplement;

(c) **Amounts of Payments.**—Except as permitted by section 4(d), the instalments in which the time balance is repayable shall be substantially equal in amount or be so arranged that no instalment is substantially greater in amount than any preceding instalment;

(d) **Intervals of Payments.**—The instalments shall be payable at approximately equal intervals not exceeding one month, except that, when appropriate for the purpose of facilitating repayment in accordance with the seasonal nature of the obligor's main source of income or to encourage off-seasonal purchases of seasonal goods, the payment schedule may reduce or omit payments over any period or periods totaling not more than 4 months during the life of such extension of instalment sale credit if the schedule increases the scheduled payments in such manner as to meet all the other requirements of this section 4;

(e) **Small Down Payments.**—In any case in which the down payment required by section 4(a) would be \$2.00 or less, the Registrant may disregard such requirement.

(f) **Statement of Transaction.**—The extension of instalment sale credit shall be evidenced by a written instrument or record, and there shall be incorporated therein or attached thereto a written statement, of which a copy shall be given to the obligor as promptly as circumstances will permit, and which shall set forth (in any order) the following information:

- (1) A brief description identifying the article purchased;
- (2) The *bona fide* cash purchase price of the article and accessories purchased (including any sales taxes thereon) and of any services (excluding any interest or finance charge and the cost of any insurance) rendered in connection with the acquisition thereof, itemized;
- (3) The amount of the purchaser's down payment (A) in cash and (B) in goods accepted in trade, together with a brief description identifying such goods and stating the monetary value assigned thereto in good faith;

(4) The deferred balance, which is the difference between items (2) and (3);

(5) The amount of any insurance premium for which credit is extended and of any finance charges or interest by way of discount included in the principal amount of the obligation, or the sum of these amounts;

(6) The time balance owed by the purchaser, which is the sum total of items (4) and (5); and

(7) The terms of payment.

The Registrant may disregard the requirements of this section 4(f) in the case of any article listed in Group A, B, C or D on which the down payment required by section 4(a) would be \$2.00 or less, or in the case of any article included in Group E of which the *bona fide* cash purchase price, as defined in the Supplement, does not exceed \$20.00.

(g) **Credit of Which a Part Arises Out of Sale of a Listed Article.**—In case an extension of instalment sale credit arises partly out of a sale of an article listed in the Supplement and partly out of another sale, the amount and the terms of such extension of credit shall be such as would result if the credit were divided into two parts, the part relating to the listed article being treated in accordance with the provisions of this regulation relating to such article and the remainder being treated in the manner in which the Registrant would in good faith treat a similar extension of credit if standing alone.

SECTION 5. INSTALMENT LOAN CREDIT

Except as otherwise permitted by section 6, any extension of instalment loan credit shall comply with the following requirements:

(a) **Loans Secured by or to Purchase Listed Articles.**—If the extension of instalment loan credit is secured, or according to any oral or written agreement of the parties is to become secured, by any listed article which has been purchased within 45 days prior to, or is to be purchased at any time after, such extension of instalment loan credit; or if the extension of instalment loan credit, even though not so secured, is in a principal amount of \$1,500 or less and the Registrant knows or has reason to know that the proceeds are to be used to purchase any listed article:

(1) The principal amount lent to the obligor (excluding any interest or finance charges, and the cost of any insurance) shall not exceed the maximum credit value of the listed article specified in the Supplement; and, in determin-

ing such maximum credit value, the Registrant may accept in good faith a written statement signed by the obligor setting forth the *bona fide* cash purchase price of the article and of any accessories and of any services, except insurance, rendered in connection with the acquisition thereof, which statement so accepted shall, for purposes of this regulation, be deemed to be correct; and

(2) The maturity shall not exceed that specified for the listed article in the Supplement, and such maximum maturity shall be calculated from the date of purchase of such listed article or from the date of such extension of instalment loan credit, whichever is earlier.

(b) **Miscellaneous Loans of \$1,500 or Less.**—If the extension of instalment loan credit is not subject to section 5(a) but is in a principal amount of \$1,500 or less, the maximum maturity shall not exceed that specified in the Supplement for extensions of instalment loan credit subject to this section 5(b).

(c) **General Requirements.**—Whether subject to section 5(a) or section 5(b), the extension of instalment loan credit shall comply with the following additional requirements:

(1) The extension of instalment loan credit shall be evidenced by a written instrument or record, and there shall be incorporated therein or attached thereto a written statement, of which a copy shall be given to the obligor as promptly as circumstances will permit, and which shall set forth the terms of payment and, if the loan is subject to section 5(a), the *bona fide* cash purchase price used for determining the maximum credit value of the listed article involved;

(2) Except as permitted by section 5(c)(3), the total of the principal and any interest or finance charges shall be payable in instalments which shall be substantially equal in amount or be so arranged that no instalment is substantially greater in amount than any preceding instalment; and

(3) Instalments shall be payable at approximately equal intervals not exceeding one month, except that, when appropriate in order to facilitate repayment in accordance with the seasonal nature of the obligor's main source of income or to encourage off-seasonal purchases of seasonal goods, the payment schedule may reduce or omit payments over any period or periods totaling not more than 4 months during

the life of such extension of credit if the schedule increases the scheduled payments in such manner as to meet the other requirements of this section 5.

(d) **Statement of the Borrower.**—No Registrant shall make any extension of instalment loan credit (except under the provisions of section 8(a)) unless, at or before the execution of the loan contract, he shall have obtained and accepted in good faith a signed Statement of the Borrower as to the purposes of the loan in form prescribed by the Board. No obligor shall willfully make any material misstatement or omission in such Statement. The Registrant, acting in good faith, may rely upon the facts set out by the obligor in such Statement and, when the Registrant is so acting, such facts shall be deemed to be correct for the purposes of the Registrant. In case the Registrant accepts in good faith a written statement signed by the obligor that any listed article which secures an extension of instalment loan credit has not been purchased within 45 days prior to such extension of credit, such statement shall, for the purposes of this regulation, be deemed to be correct.

(e) **Credit Subject to Section 5(a) Only in Part.**—In case an extension of instalment loan credit consists only in part of an extension of credit subject to section 5(a), the amount and terms of such extension of credit shall be such as would result if the credit were divided and each part treated in good faith as if it stood alone.

A loan or part thereof which is secured by a listed article only because of an "overlap agreement," "spreader clause," or other form of general over-all lien or only because the Registrant is prevented by a State law or regulation from having in effect more than one contract of loan from the same borrower at the same time, but which otherwise would not be subject to section 5(a), shall not be deemed to be so secured within the meaning of such section.

(f) **Loans to Make Down Payments Prohibited.**—An extension of instalment loan credit does not comply with the requirements of this regulation if the Registrant making such extension knows or has reason to know that any part of the proceeds thereof is to be used to make a down payment on the purchase price of any listed article: *Provided*, That if the Registrant accepts in good faith a written statement signed by the obligor that no part of the proceeds is to be so used, such statement shall, for the purposes of this regulation, be deemed to be correct.

SECTION 6. CERTAIN EXCEPTIONS

Notwithstanding the provisions of sections 4 and 5, the requirements of such sections shall not apply to any of the following:

(a) Any extension of credit which is secured by a *bona fide* first lien on improved real estate duly recorded or which is for the purpose of financing or refinancing the construction or purchase of an entire residential building or other entire structure.

(b) Any extension of credit over \$1,000 which is made for materials and services in connection with repairs, alterations, or improvements upon urban, suburban, or rural real property in connection with existing structures, even though such materials include articles listed in Group C or D in the Supplement, provided the *bona fide* cash purchase price of such articles so listed does not exceed 50 per cent of the total over-all deferred balance.

(c) Any extension of instalment loan credit which is made to or for a student for *bona fide* educational purposes.

(d) Any extension of instalment loan credit if (1) the proceeds are to be used for *bona fide* medical, hospital, dental, or funeral expenses and (2) the income of the obligor available for the purpose is such that he could not reasonably meet the requirements of this regulation otherwise applicable, and failure to obtain the extension of credit would cause undue hardship to him; *Provided*, That if the Registrant accepts in good faith a written statement signed by the obligor and setting forth the facts relied upon to bring the loan within the exception of this section 6(d) the facts set forth in such statement shall, for the purposes of this regulation, be deemed to be correct.

(e) Any extension of credit (1) to finance the purchase of aircraft for use in any activity in respect of which a preference rating of A-10 or higher is in force for deliveries of civil aircraft; or (2) to remodel or rehabilitate any dwelling or residence which the Defense Housing Coordinator, or his authorized agent, shall designate as being for "defense housing" as defined by the Coordinator. Information regarding the procedure for obtaining such a designation may be obtained through any Federal Reserve Bank or branch.

(f) Any extension of instalment sale credit which is to be repaid at approximately equal intervals and in approximately equal instalments, the last of which matures within three months after the first day of the calendar month next following such extension.

(g) Any extension of credit to a dealer in any listed article, whether a wholesaler or retailer, to finance the purchase of any such article for resale.

(h) Any extension of credit which is to be repaid within not more than twelve months and is made to a *bona fide* salesman of automobiles in order to finance the purchase of a new automobile to be used by him principally as a demonstrator.

(i) Any extension of credit which is for the purpose of financing a premium in excess of one year on a fire or casualty insurance policy if the proceeds are paid directly to the insurance agent, broker, or company issuing or underwriting the insurance and the extension of credit is fully secured by the unearned portion of the premium so financed.

(j) Any extension of instalment loan credit made by the Disaster Loan Corporation.

(k) Any extension of instalment loan credit which is made to a person engaged in agriculture, or to a cooperative association of such persons, provided that the extension of instalment loan credit (1) is made by the Land Bank Commissioner on behalf of the Federal Farm Mortgage Corporation and is found, pursuant to regulations issued by the Commissioner, to be necessary to maintain or increase production of essential agricultural commodities, or (2) is approved by the Farm Security Administrator, or his authorized agent, as being necessary for the rehabilitation of a needy farm family, or (3) is for general agricultural purposes and is not for the purpose of purchasing any listed article and not secured by any listed article purchased within 45 days before the extension of credit. In determining whether a loan meets the description of clause (3) above, a Registrant may accept in good faith a written statement signed by the obligor setting forth the facts relied upon to bring the loan within the description, and the facts set forth in such statement shall, for the purposes of this regulation, be deemed to be correct.

(l) Any extension of instalment loan credit which is made to a person whose income is derived principally from the operation of a business enterprise of which such person is the owner or proprietor, provided the extension of credit is for the purpose of financing such business enterprise and is not for the purpose of purchasing any listed article or secured by any listed article purchased within 45 days before the extension of credit.

SECTION 7. ENFORCEABILITY OF CONTRACTS

Pending an opportunity for the Board to observe this regulation in operation and except as may subsequently be otherwise provided, all of the provisions of this regulation are designated, pursuant to section 2(d) of the Executive Order, as being for administrative purposes within the meaning of said section 2(d) which provides that non-compliance with provisions of the regulation so designated shall not affect the right to enforce contracts.

SECTION 8. RENEWALS, REVISIONS, AND ADDITIONS

(a) **Renewals or Revisions.**—If any obligation or claim evidencing any extension of instalment sale credit or instalment loan credit is renewed or revised by a Registrant, the extension of instalment credit does not comply with the requirements of this regulation if such renewal or revision has the effect of changing the terms of repayment to terms which this regulation would not have permitted in the first instance for such credit;⁴ *Provided*, That nothing in this regulation shall be construed to prevent any Registrant from making any renewal or revision, or taking any action that it shall deem necessary in good faith (1) with respect to any obligation of any member of the armed forces of the United States incurred prior to his induction into such service, or (2) for the Registrant's own protection in connection with any obligation which is in default and is the subject of *bona fide* collection effort by the Registrant.

(b) **Additions to Outstanding Credit Held by Registrant.**—An extension of instalment sale credit or instalment loan credit does not comply with the requirements of this regulation if it is consolidated with any obligation or obligations held by the Registrant evidencing any prior extension or extensions of instalment credit to the same obligor, unless the additional extension of credit complies with the maximum credit value limitations applicable thereto (if any) and, in addition, the consolidated obligation complies with one of the following options:

⁴ If there should be any arrearage which does not arise out of any prearrangement or plan to evade this regulation, the arrearage may be divided equally among and added to the remaining payments scheduled for the liquidation of the credit to which such arrearage relates. This applies to any renewal, revision or consolidation effected in accordance with any provision of Section 8.

Option 1. The terms of the consolidated obligation shall be such as would have been necessary to meet the requirements of this regulation if the several obligations had not been consolidated: *Provided*, That, in order to schedule payments at approximately equal intervals, the consolidated obligation may combine payments that would otherwise have fallen due at different times within any monthly period, but the first of such combined payments shall fall due within one month after such consolidation; or

Option 2. The consolidated obligation shall provide for a rate of payment, throughout its term, which is (A) at least as large per month as the rate of payment or payments on the outstanding obligation or obligations being consolidated would have been for the month commencing on the date of consolidation, and (B) is larger to whatever extent may be necessary in order to repay the consolidated obligation within 15 months.

(c) **Credit to Retire Obligations Held Elsewhere.**—Any extension of instalment loan credit, the proceeds of which a Registrant knows or has reason to know will be used in whole or in part to retire any extension of instalment credit not held by such Registrant, shall be subject to the provisions of this regulation to the same extent as if the obligation being retired were held by the Registrant.

(d) **Statement of Necessity to Prevent Undue Hardship.**—Notwithstanding the provisions of sections 8(a), 8(b) and 8(c), if a Registrant accepts in good faith a statement of necessity as provided in the following paragraph, the renewed, revised or consolidated obligation may provide for a schedule of repayment as though it were a new extension of instalment loan credit subject to section 5(b), even though such action results in the reduction of the rate of repayment thereon.

The requirements of a statement of necessity will be complied with only if the Registrant accepts in good faith a written statement in form and content prescribed by the Board and signed by the obligor that the contemplated renewal, revision or other action is necessary in order to avoid undue hardship upon the obligor or his dependents resulting from contingencies that were unforeseen by him at the time of obtaining the original extension of instalment credit or which were beyond his control, which statement also sets forth briefly the principal facts and

circumstances with respect to such contingencies and specifically states that the renewal, revision, or other action is not pursuant to a preconceived plan or an intention to evade or circumvent the requirements of this regulation.

(e) **Obligations Outstanding on September 1, 1941.**—The requirements of sections 8(a), 8(b), and 8(c), do not apply to any renewal or revision of any obligation arising out of any extension of instalment sale credit or instalment loan credit made prior to September 1, 1941; but when any such outstanding obligation has been combined with any extension of instalment sale credit or instalment loan credit made on or after September 1, 1941, or has been the subject of any renewal or revision made on or after such date, such extension of instalment credit shall thereafter be treated for the purposes of this regulation as having been made on or after such date.

(f) **Side Loan to Make Down-Payment on Listed Article.**—An extension of instalment credit which is limited in amount by this regulation to the maximum credit value of any listed article, does not comply with the requirements of this regulation if the Registrant making such extension of instalment credit knows or has reason to know that there is, or that there is to be, any other extension of credit in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchase beyond the maximum credit value of such article as specified in the Supplement; *Provided*, That, if the Registrant accepts in good faith a written statement signed by the obligor that no such other extension exists or is to be made, such statement shall, for the purposes of this regulation, be deemed to be correct.

(g) **Evasive Side Agreements.**—No extension of instalment credit complies with the requirements of this regulation if at the time it is made there is any agreement, arrangement, or understanding by which the obligor is to be enabled to make repayment on conditions inconsistent with those required by this regulation, or which would otherwise evade or circumvent, or conceal any evasion or circumvention of, any requirement of this regulation.

SECTION 9. MISCELLANEOUS PROVISIONS

(a) **Clerical Errors.**—Any failure to comply with this regulation resulting from a mistake in determining, calculating, or recording any price, credit value, or extension of credit, or other

similar matter, shall not be construed to be a violation of this regulation if the Registrant establishes that such failure to comply was the result of excusable error and was not occasioned by a regular course of dealing.

(b) **Calculating Maximum Maturity of Contract.**—In calculating the maximum maturity of a contract from the date on which any listed article was purchased or any loan was made, depending upon which such date is required by this regulation to be used for such calculation, a Registrant may, at his option, use as such date of purchase or loan any date not more than 15 days subsequent to the actual date thereof.

(c) **“Lay-away” Plans.**—With respect to any extension of instalment sale credit involving a *bona fide* “lay-away” plan, or other similar plan by which a purchaser makes one or more payments on an article before receiving delivery thereof, the Registrant may, for the purposes of this regulation, treat the extension of instalment sale credit as not having been made until the date of the delivery of the article to the purchaser.

(d) **Outstanding Contracts.**—Except as provided in section 8(e) with respect to contracts made prior to September 1, 1941, which have been renewed, revised, or consolidated on or after such date, nothing in this regulation shall apply with respect to any valid contract made prior to such date.

Whenever this regulation is amended to add any article to the listed articles specified in the Supplement, the amendment shall not apply with respect to the carrying out of any valid contract made prior to the effective date of the amendment; but any renewal, revision or consolidation of any such obligation shall be subject to the requirements of section 8, and for the purposes of section 8(a) the terms of repayment “permitted in the first instance” for such an obligation shall be deemed to be those applicable to such an extension of credit under such amendment.

(e) **Payments Arising out of Loans on Instalment Obligations.**—With respect to any loan on the security of an obligation or claim which arises out of an extension of instalment credit, the prohibitions of this regulation shall be deemed to apply only to payments arising out of the obligation or claim rather than to payments arising out of the loan.

(f) **“Farmer Plans”.**—When appropriate for the purpose of facilitating repayment in accordance with the seasonal nature of the obligor’s main source of income, an extension of instalment credit which is made to a person who is engaged in agriculture

and derives income principally therefrom may be payable in any amounts and at any intervals, notwithstanding sections 4(c), 4(d) and 5(c): *Provided*, That (1) the extension of credit complies with the applicable provisions concerning the amount and maximum maturity of the credit and (2) at least one-half of the credit is to be repaid within the first half of the applicable maximum maturity.

(g) **Records and Reports.**—Every Registrant shall keep such records and make such reports as the Board may from time to time require as necessary or appropriate for enabling it to perform its functions under the Executive Order.

(h) **Production of Records.**—Every Registrant, as and when required by the Board, shall furnish complete information relative to any transaction within the scope of the Executive Order, including the production of any books of account, contracts, letters, or other papers in connection therewith.

(i) **Transactions Outside United States.**—Nothing in this regulation shall apply with respect to any extension of credit made in Alaska, the Panama Canal Zone, or any territory or possession outside the continental United States.

(j) **Right of Registrant to Impose Stricter Requirements.**—Nothing in this regulation shall be construed to modify the right of any Registrant to refuse to extend credit, or to extend less credit than the amount permitted by this regulation, or to require that repayment be made within a shorter period than the maximum permitted by this regulation.

SECTION 10. EFFECTIVE DATE OF REGULATION

This regulation became effective in its original form September 1, 1941; Amendment No. 1 became effective September 20, 1941; Amendment No. 2 became effective December 1, 1941; and Amendment No. 3 shall become effective March 23, 1942, except that the change made in Part 3 of the Supplement by Amendment No. 3 shall not become effective until April 1, 1942.

SUPPLEMENT TO REGULATION W

Part 1. Listed Articles, Maximum Maturities, and Maximum Credit Values.—For the purposes of the regulation the following maximum maturities and maximum credit values shall apply to the following list of articles:

<i>Articles of Consumers' Durable Goods (Whether New or Used)</i>	<i>Maximum Maturity in Months</i>	<i>Maximum Credit Value in per cent of Basis Price</i>
<i>Group A</i>		
1. Automobiles (passenger cars designed for the purpose of transporting less than 10 passengers, including taxicabs)	15	(See Part 3 of this Supplement)
2. Motorcycles (two or three-wheel motor vehicles, including motor bicycles)	15	
<i>Group B</i>		
1. Aircraft (including gliders)	15	66-2/3
2. Power driven boats, and motors designed for use therein, other than boats or motors designed specifically for commercial use	15	66-2/3
3. Outboard boat motors	15	66-2/3
*4. Bicycles	15	66-2/3
<i>Group C</i>		
1. Mechanical refrigerators of less than 12 cubic feet rated capacity	15	66-2/3
2. Washing machines designed for household use	15	66-2/3
3. Ironers designed for household use	15	66-2/3
4. Suction cleaners designed for household use	15	66-2/3
5. Cooking stoves and ranges designed for household use	15	80
6. Heating stoves and space heaters designed for household use	15	80
7. Electric dishwashers designed for household use	15	66-2/3
8. Room-unit air conditioners	15	66-2/3
9. Sewing machines designed for household use	15	66-2/3
10. Radio receiving sets, phonographs, or combinations	15	66-2/3
11. Musical instruments composed principally of metals	15	66-2/3
*12. Lawn mowers, mower-type edgers and trimmers (whether or not power-driven)	15	66-2/3
*13. Silverware (flatware and hollow ware, whether solid or plated)	15	66-2/3
*14. Clocks, electric or other, designed for household or personal use, and watches	15	80
*15. Motion picture cameras, projectors, and lenses, designed for film gauges less than 35 mm.; still cameras, projectors, lenses and shutters, and enlargers	15	66-2/3

* Added by Amendment No. 3, effective March 23, 1942.

<i>Articles of Consumers' Durable Goods</i> (Whether New or Used)	<i>Maximum Maturity in Months</i>	<i>Maximum Credit Value in per cent of Basis Price</i>
<i>Group D</i>		
1. Household furnaces and heating units for furnaces (including oil burners, gas conversion burners, and stokers)	18	80
2. Water heaters designed for household use	18	80
3. Water pumps designed for household use	18	80
4. Plumbing and sanitary fixtures designed for household use	18	80
5. Home air conditioning systems	15	66-2/3
6. Attic ventilating fans	15	66-2/3
7. New household furniture (including ice refrigerators, bed springs, and mattresses but excluding floor coverings, wall coverings, draperies, and bed coverings) ¹	15	90
8. Pianos and household electric organs	18	90
*9. Floor coverings (including fabric and linoleum type rugs, carpets, mats, and other floor covering materials, whether or not designed to be affixed to the floor)	15	80

Group E

1. Materials and services (other than materials, whether or not designed for household use, which are of the kinds listed in Group C or D) in connection with repairs, alterations, or improvements upon urban, suburban or rural real property in connection with existing structures (other than a structure, or a distinct part thereof, which, as so repaired, altered or improved, is designed exclusively for *non-residential* use), provided the deferred balance does not exceed \$1,000
- 18 No limitation

Part 2. Basis Price of Listed Articles Other Than Those in Group A.—The *basis price* of any listed article, other than an automobile or other article listed in Group A, shall be the *bona fide* cash purchase price of the article and accessories purchased *minus* the amount of any allowance made by the seller for any article traded in by the purchaser (including as such a trade-in anything which the seller buys or arranges to have bought from the purchaser at or about the time of the purchase of the listed article).

¹ An article is not new if it has been used by a consumer.

* Added by Amendment No. 3, effective March 23, 1942.

Part 3. Maximum Credit Value of Automobiles and Motorcycles.—For the purpose of the regulation:

(a) The maximum credit value of a new automobile or a new or used motorcycle shall be $66\frac{2}{3}$ per cent of the *bona fide* cash purchase price.

(b) The maximum credit value of a used automobile shall be $66\frac{2}{3}$ per cent of whichever is the lower of the following two figures:

- (1) the *bona fide* cash purchase price; or
- (2) the "appraisal guide value" plus any applicable sales taxes.

"Appraisal guide value" means the estimated average retail value as stated in such edition of any regularly published automobile appraisal guide as the Board may designate for this purpose for use in the territory in which such used automobile is sold. Information as to the guide or guides designated for any given territory may be obtained from any Federal Reserve Bank or branch.

Part 4. Cash Purchase Price.—For the purposes of the Supplement:

(a) The *bona fide* cash purchase price of an article includes that of any accessories, and it also includes any applicable sales taxes and any *bona fide* delivery and installation charges; and

(b) In the case of any article or accessory for which the Federal price authorities have prescribed a maximum retail price, the maximum credit value shall in no event exceed that resulting from a *bona fide* cash purchase price equal to the total of such maximum retail price and any applicable sales taxes not included therein.

Part 5. Instalment Loan Credit Subject to Section 5(b) of the Regulation.—The maximum maturity of any extension of instalment loan credit of \$1,500 or less subject to section 5(b) of the Regulation shall be 15 months.

APPENDIX TO REGULATION W

[This appendix consists of the text of the Executive Order, presented above, pp. 209-14.]