

# FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

August 14, 1925.

My dear Mr. Sanders:

I have your letter of August 13 enclosing the letter of L. Q. White, of Bridgewater, Mass., and requesting information.

Mr. White is concerned about the instalment plan of paying for automobiles. The instalment plan is not limited alone to automobiles; it has extended so far as to embrace the clothing that is worn in many parts of the United States. The automobile industry, financed as it is on the instalment plan, is largely handled through discount corporations and not through the banks. It may be that there are some banks in some parts of the country that handle some of this paper, but I do not believe that a single instance can be cited where any of this paper comes into the Federal Reserve banks because I am of the opinion that it is ineligible as well as undesirable.

The practice of paying for automobiles in the manner suggested by Mr. White no doubt does affect other business and industry in the country. People will have an automobile and sacrifice paying their doctor bill, their grocery bill and clothing bill or will go without all of them rather than to give up an automobile, and as long as this spirit prevails and as long as discount corporations operate this condition will continue. The discount companies find it extremely profitable because they have learned that the family will sacrifice every other convenience, every other luxury and often necessities rather than to give up the automobile. This makes of course the assurance of payments to discount corporations that handle the paper at a large discount from the seller of automobiles, and the security is reasonably safe because the vendor of the automobile guarantees the loan in addition to this intense spirit to pay on the part of the buyer.

It may be possible, and I think it is quite likely, that member banks do loan to the dealers in automobiles, but that paper is not the kind that is rediscounted as a rule with the Federal Reserve banks. For the information of Mr. White I might say that the discounts in the Federal Reserve banks of the United States amount to \$543,000,000, in round numbers, and this is extremely low. A great part of this is used in the agricultural districts, and the amount of

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instalment notes on automobiles, if any, that is in the Federal Reserve banks- and I doubt whether there is any- would have no appreciable effect upon the industry of the country.

Mr. White's trouble is to be found in the local banks of the country and not in the Federal Reserve banks, and it is a condition over which the Federal Reserve Board and Federal Reserve banks have no control. The Board has no power under the Federal Reserve Act to say that a member bank shall not loan to an automobile dealer, and likewise they would have no power to say that money should not be loaned by a member bank to a shoe company.

I quite agree with Mr. White that the present method of mortgaging the future earnings of the people of the United States by instalment plan is a subject that merits the careful consideration of all business men and all persons who have the welfare of the country at heart.

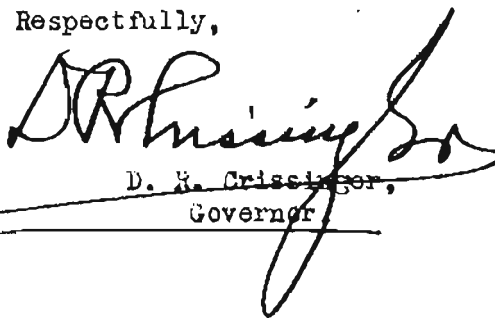
The National Retail Hardware Association of Indianapolis, Indiana, is putting out literature on the subject that might be of great interest to Mr. White.

We doubt very much whether there are many frozen loans in the member banks of the Federal Reserve System that are predicated upon automobile paper. If Mr. White has any specific case where a member bank is permitted to discount instalment payment notes in a Federal Reserve bank I shall be pleased to have such information.

One further thought: These discount corporations are not owned by national banks. There may be stockholders of national banks owners of discount corporations but they are not directly owned by national banks and can not be under the law.

I am returning Mr. White's letter as requested.

Respectfully,



D. R. Crissinger,  
Governor

Hon. Everett Sanders,  
Secretary to the President,  
The White House.