

**FEDERAL RESERVE BANK
OF DALLAS**

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**REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE
CERTIFICATES**

To all Incorporated Banks in the Eleventh Federal Reserve District:

This circular is issued for the purpose of explaining the basis upon which loans may be made to veterans under the provisions of the World War Adjusted Compensation Act and under the provisions of the regulations of the Director of the United States Veterans' Bureau, and also for the purpose of stating the requirements of this bank in connection with the submission of notes evidencing such loans for rediscount under the terms of Regulation M of the Federal Reserve Board.

LOANS ON ADJUSTED SERVICE CERTIFICATES

It should be understood that the discussion under this heading is confined exclusively to a brief explanation and interpretation of the relevant provisions of the World War Adjusted Compensation Act and the regulations of the Director of the United States Veteran's Bureau.

Under the provisions of the World War Adjusted Compensation Act, adjusted service certificates shall be dated as of the 1st day of the month in which the applications for such certificates are filed, but in no case before January 1, 1925. Banks are authorized to make loans on the security of such adjusted service certificates, but not before the expiration of two years after the date of the certificate.

Only the veteran named in the certificate can lawfully obtain a loan on his adjusted service certificate and neither the beneficiary nor any other person than the veteran has any rights in this respect.

Any national bank or any bank or trust company incorporated under the laws of any State, territory, possession or the District of Columbia, hereinafter referred to as any "bank," is authorized to loan to any veteran upon his promissory note secured by his adjusted service certificate (with or without the consent of the beneficiary thereof) any amount not in excess of the loan value of the certificate at the date the loan is made. Each certificate contains on its face a table for determining the loan value of the certificate.

The United States Veterans' Bureau has prepared a form of note for use in this connection and is printing a supply of such forms for distribution to the banks. The regulations of the Bureau provide that the form of notes used in making loans secured by adjusted service certificates should substantially follow the form prepared by the Bureau. The official form provided by the Bureau should, therefore, be used whenever possible. When it is not possible to use this form the bank should use a form substantially the same as that provided by the Veterans' Bureau, a sample copy of which is enclosed herewith.

Any bank making a loan on an adjusted service certificate is required by the regulations of the United States Veterans' Bureau promptly to notify the Bureau of the name of the veteran, the A-number shown immediately after the name, the number of the certificate and the amount and date of the loan.

Any bank holding a note secured by an adjusted service certificate may sell the note to any bank authorized to make a loan to a veteran and deliver the certificate to such bank.

In case a note secured by an adjusted service certificate is sold, discounted or rediscounted, the bank making the transfer is required by law to notify the veteran promptly by mail at his last known postoffice address.

No adjusted service certificate is negotiable or assignable, or may serve as security for a loan, except as provided in Section 502 of the World War Adjusted Compensation Act, which is printed on the face of each adjusted service certificate. **Any negotiation, assignment or loan not made in accordance with the provisions of Section 502 of the World War Adjusted Compensation Act is void.**

The law provides that the rate of interest which a bank may charge upon such loans shall not exceed by more than 2% per annum the rate charged at the date of the loan for the discount of 90-day commercial paper under section 13 of the Federal Reserve Act by the Fed-

eral Reserve Bank of the district in which the lending bank is located. Interest must not be deducted in advance, but will be collectible at the maturity of the loan. The regulations of the United States Veterans' Bureau provide that, where a loan is made by a bank located in a territory or possession not embraced in any Federal Reserve District, the rate of interest charged shall not exceed the legal rate in such territory or possession; provided, however, that the interest charged on loans made outside the continental limits of the United States by a branch of a bank whose head office is in a Federal Reserve District will be governed by the discount rate on 90-day commercial paper in effect at the Federal Reserve Bank of the district in which the parent bank is located. No charge, other than the interest allowed by law, may be made by the lending bank; since the act provides, under penalty, that such bank shall not charge or collect, or attempt to charge or collect, directly or indirectly, any fee or other compensation in respect of any loan made upon the security of an adjusted service certificate except the interest authorized by law. Any violation of this provision will make the loan void.

The Director of the United States Veterans' Bureau cannot lawfully make payment on any note secured by an adjusted service certificate, unless the note when presented to him is accompanied by an affidavit made by an officer of the bank which made the loan, before a Notary Public or other officer designated for the purpose by regulation of the Director of the Veterans' Bureau, stating that such bank has not charged or collected, or attempted to charge or collect directly or indirectly, any fee or other compensation in respect of any loan made upon the security of an adjusted service certificate by the bank to a veteran, except the interest authorized by law.

The Regulations of the United States Veterans' Bureau also require that such affidavit shall state:

(1) That the person who obtained the loan evidenced by such note is known to be the veteran named in the adjusted service certificate securing such note;

(2) That the lending bank has notified the United States Veterans' Bureau that it has made a loan to the veteran named in the certificate; and

(3) That the bank has notified the veteran by mail at his last known post office address of any sale, discount, or rediscount of such note.

The Regulations of the United States Veterans' Bureau also provide that in case the note was resold or rediscounted by any bank other than the lending bank, affidavit shall be made by a duly authorized officer of such bank that proper notice of such resale or rediscount was promptly mailed to the veteran at his last known address.

There is printed on the same piece of paper as the form of note prepared by the Veterans' Bureau two forms of affidavits covering the above requirements; and the Regulations of the Veterans' Bureau provide that the proper execution of the appropriate affidavit on such form will be considered as a compliance with the requirements of the Veterans' Bureau with respect to affidavits.

REDEMPTION OF CERTIFICATES BY THE DIRECTOR OF THE VETERANS' BUREAU

The discussion under this heading, as under the preceding heading, is based entirely upon the World War Adjusted Compensation Act and the regulations of the Director of the Veterans' Bureau.

If the veteran does not pay the loan at its maturity the bank holding the note and adjusted service certificate may at any time after the maturity of the loan, **but not before the expiration of six months after the loan was made**, present them to the Director of the Veterans' Bureau. The Director may in his discretion accept the certificate and note and pay the bank in full satisfaction of its claim, the amount of the unpaid principal due it, and the unpaid interest accrued at the rate fixed in the note, up to the date of the check issued to the bank.

The Regulations of the Veterans' Bureau state that it will be the policy of the Bureau to redeem all loans made in accordance with the law and regulations made pursuant thereto, when such loans are made in good faith to the veteran to whom the certificate was issued, except that where the note is held by a bank for a period in excess of six months after the date of maturity, the discretion authorized by law may be invoked and redemption refused.

If the veteran dies before the maturity of the loan, the amount of unpaid principal and unpaid interest accrued up to the date of his death immediately becomes due and payable. In such case, or if the veteran dies on the date the loan matures or within six months thereafter, the bank holding the note and the certificate shall, upon notice of the death of the veteran, present them to the Director of the Veterans' Bureau, who shall thereupon pay the bank in full satisfaction of its claim the amount of the unpaid principal and unpaid interest at the

rate fixed in the note accrued up to the date of the check issued to the bank; except that if, prior to the payment, the bank is notified by the Director of the death of the veteran and fails to present the certificate and note to the Director within 15 days after such notice, interest shall be paid only up to the 15th day after such notice.

If the veteran has not died before the maturity of the certificate and has failed to pay his note to the bank holding the note and certificate, such bank at the maturity of the certificate must present the note and certificate to the Director of the Veterans' Bureau, who is thereupon required by law to pay to the bank in full satisfaction of its claim the amount of the unpaid principal and unpaid interest at the rate fixed in the note accrued up to the date of the maturity of the certificate.

Particular attention is called to the fact that the form of demand for payment printed on the back of each adjusted service certificate should not be filled out by the borrower or by any bank as this form is to be used only by the beneficiary of the certificate upon the death of the veteran.

REDISCOUNT WITH FEDERAL RESERVE BANKS

Upon the indorsement of any bank, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such note secured by an adjusted service certificate and held by a bank is made eligible for discount or rediscount by the Federal Reserve bank of the Federal reserve district in which such bank is located, whether or not the bank offering the note for discount or rediscount is a member of the Federal Reserve System and whether or not it acquired the note in the first instance from the veteran or acquired it by transfer upon the indorsement of any other bank; provided that at the time of discount or rediscount such note has a maturity not in excess of nine months, exclusive of days of grace, and complies in all other respects with the provisions of the law, the regulations of the United States Veterans' Bureau, and the regulations of the Federal Reserve Board.

ELIGIBILITY FOR REDISCOUNT

In order to be eligible for rediscount at a Federal reserve bank, any such note must:

1. Arise out of a loan made by a bank to a veteran in full compliance with the provisions of the World War Adjusted Compensation Act and the regulations of the United States Veterans' Bureau;
2. Be secured by the adjusted service certificate issued to the maker, which certificate must accompany the note;
3. Be held by the offering bank in its own right at the time it is offered for rediscount;
4. Be negotiable in form and otherwise in the form approved by the United States Veterans' Bureau;
5. Have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace;
6. Evidence a loan the amount of which does not exceed the loan value of the adjusted service certificate for the year in which such loan was made;
7. Be payable with interest accruing after the date of the note at a rate stated in the face of the note, which rate shall not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located;
8. Bear the endorsement of the bank offering it for rediscount, which endorsement shall be deemed a waiver of demand, notice and protest by such bank as to its own endorsement exclusively;
9. Be accompanied by the evidence of eligibility required by the Regulations of the Federal Reserve Board and by such other evidence of eligibility as the Federal reserve bank may require;
10. Be accompanied by such affidavits and other evidence as would be required by the Veterans' Bureau in the event the Federal reserve bank should apply to the Veterans' Bureau for payment of the note; and
11. Comply in all other respects with the requirements of the law and of the regulations of the Federal Reserve Board.

INELIGIBILITY AS COLLATERAL TO A BANK'S OWN NOTE

Neither a member bank nor a nonmember bank may borrow from a Federal reserve bank on its own promissory note secured by notes of veterans in turn secured by adjusted service

certificates; because neither the Federal Reserve Act nor the World War Adjusted Compensation Act authorizes the Federal reserve banks to make such loans. That provision of Section 13 of the Federal Reserve Act which authorizes Federal reserve banks to make loans to member banks for periods not in excess of 15 days on the promissory notes of such member banks requires that such notes must be secured by paper eligible for rediscount or for purchase by Federal reserve banks under the provisions of the Federal Reserve Act or by bonds or notes of the United States. Section 502 of the World War Adjusted Compensation Act which authorizes Federal reserve banks to rediscount notes secured by adjusted service certificates is not made a part of the Federal Reserve Act.

METHOD AND TERMS OF REDISCOUNT

Prior to the rediscount of any paper a certified copy of a resolution passed by the board of directors of the offering bank with the Seal of the bank affixed, authorizing the proper officials to rediscount, must be filed with the Federal reserve bank. It will not be necessary for member banks which have filed such a resolution in connection with rediscounts to file any additional resolution in connection with notes secured by adjusted service certificates.

Before rediscounting any such notes for any nonmember bank, this bank will require such nonmember bank to furnish to it such information as this bank may consider necessary in order to satisfy itself as to the condition of such bank and the advisability of making rediscounts for it. Blank applications for rediscount will be supplied by this bank upon request.

All such notes offered for rediscount must be submitted only on the special application form provided and the application must be signed by an officer authorized by resolution of the bank's board of directors to rediscount such paper with the Federal Reserve Bank. Full information must be furnished as provided on the form.

Upon acceptance for rediscount by the Federal reserve bank the proceeds of such notes will be credited to the reserve account of the bank, in the case of a member bank, and, in the case of a nonmember bank, the Federal reserve bank will remit by check or, upon request, will credit the account of a designated member bank located in this Federal reserve district for the use and credit of the nonmember.

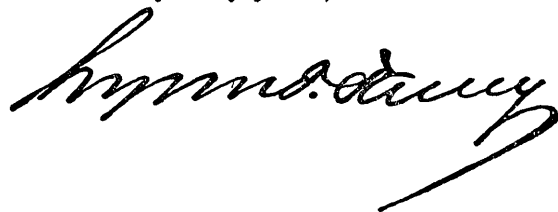
The rate of discount deducted by this bank will be the same as that deducted by it in rediscounting 90 day notes issued for commercial purposes.

FURTHER INFORMATION ENCLOSED

For your information there are enclosed copies of the following:

1. The World War Adjusted Compensation Act. Sections 501, 502 and 504 deserve the special attention of banks which contemplate making loans on the security of adjusted service certificates.
2. The Act of July 3, 1926, amending the World War Adjusted Compensation Act. Section 4 (a) and Section 503 as amended by this Act deserves special attention.
3. The Regulations of the Veterans' Bureau with respect to loans on adjusted service certificates.
4. The Regulations of the Federal Reserve Board with respect to the rediscount of notes secured by adjusted service certificates.
5. Form of note and affidavits, approved by the United States Veterans' Bureau. A supply of these forms will be provided by the Veteran's Bureau and any incorporated bank may obtain a supply from the United States Veterans' Bureau, Washington, D. C., or from this bank, upon request.
6. Form of resolution to be adopted by banks authorizing the endorsement and rediscount of such notes.
7. Form of application to this Federal reserve bank for rediscount of such notes. Additional copies of this form will be supplied by this bank, upon request.

Very truly yours,



Governor.