

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 1134, September 27, 1932  
Superseding Circular No. 1025, March 16, 1931 ]

Loans by Member and Nonmember Banks Secured  
by Adjusted Service Certificates  
and  
Rediscount by Federal Reserve Banks of Notes Secured  
by Adjusted Service Certificates

*To all Banks and Trust Companies  
in the Second Federal Reserve District:*

Enclosed with this circular, which supersedes circular No. 1025, dated March 16, 1931, is a copy of the Federal Reserve Board's Regulation G, Series of 1932 (superseding Regulation G of 1931), regarding rediscount of notes secured by adjusted service certificates as amended to conform to Section 502 of the World War Adjusted Compensation Act as amended by the Act approved July 21, 1932. Under the provisions of this Act a loan secured by an adjusted service certificate may be made at any time after the date of the certificate instead of only after the expiration of two years after the date of such certificate, and except as to interest accrued prior to July 21, 1932, the rate of interest on such loans may not exceed  $3\frac{1}{2}$  per centum per annum, compounded annually. The Veterans' Administration has interpreted this latter provision of the Act of July 21, 1932, to mean that the limitation of the rate of interest to  $3\frac{1}{2}$  per centum per annum, compounded annually, is applicable only to loans and extensions of loans made on or after July 21, 1932.

The extract of regulations of the United States Veterans' Bureau regarding loans by banks on adjusted service certificates, which was enclosed with our circular No. 1025, dated March 16, 1931, has been revised by the Veterans' Administration to conform to the new law, but as the supply available for distribution is limited, a copy will be furnished by this bank only upon request. The text of the revised regulations of the Veterans' Administration referred to is contained in the Federal Reserve Bulletin for September, 1932, at pages 600-602.

Loans by Member and Nonmember Banks Secured  
by Adjusted Service Certificates.

Subject to the provisions of the World War Adjusted Compensation Act as amended by the Act approved July 21, 1932, and of the regulations of the Veterans' Administration, any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia, is authorized to loan to any veteran upon his promissory note secured by his adjusted service certificate any amount not in excess of the loan value of the certificate, which is (a) 50 per centum of the face value of the certificate, or (b) the loan value stated on the face of the certificate, whichever is the greater amount. The law provides that the rate of interest charged upon the loan by the lending bank shall not exceed by more than 2 per centum 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 and, as to loans and extensions of loans made on or after July 21, 1932, shall in no event exceed  $3\frac{1}{2}$  per centum per annum, compounded annually.

Rediscount by Federal Reserve Banks of Notes  
Secured by Adjusted Service Certificates.

Upon the endorsement of any bank, which shall be deemed a waiver of demand, notice and protest by such bank as to its own endorsement exclusively, and subject to regulations of the Federal Reserve Board, any such note secured by an adjusted service certificate and held by a bank is made eligible for rediscount with the Federal Reserve Bank of the Federal Reserve District in which such bank is located, *whether or not the bank offering the note for 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 endorsement of any other bank*; provided that at the time of 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 Veterans' Administration, and the regulations of the Federal Reserve Board.

Section 4678 of the revised regulations of the Veterans' Administration sets forth a form of note (Veterans' Administration Form No. 6615-a) which may be used by banks in making loans on the security of adjusted service certificates, containing a provision that if the principal and interest are not paid at maturity, the maker and all endorsers authorize the holder at his option, evidenced by the holder's endorsement to that effect on the note, to extend its maturity for a period of one year and to repeat such extension from year to year. Subdivision (e) of Section III of the Federal Reserve Board's new Regulation G, Series of 1932, provides that when a note given by a veteran for a loan on his adjusted service certificate contains, in the form approved by the Administrator of Veterans' Affairs, a provision for the extension of the maturity thereof from year to year, at the option of the holder evidenced by his endorsement thereon, the maturity of said note (after the first maturity stated thereon) shall, for the purpose of determining its eligibility for rediscount, be deemed to be that stated in the latest extension endorsed thereon by the holder. Such a note will, therefore, be eligible for rediscount at a Federal Reserve Bank whenever the maturity date stated in the latest extension endorsed on the note by the holder is not more than nine months after the date of rediscount provided, of course, that the note complies in all other respects with the requirements of the law and of the regulations.

Any member or nonmember bank desiring to rediscount with the Federal Reserve Bank of New York notes secured by adjusted service certificates should, if it has not already done so, file with the Federal Reserve Bank of New York a certified copy of resolution adopted by the board of directors of such member or nonmember bank authorizing the officers therein designated to rediscount such notes. All notes offered to the Federal Reserve Bank of New York for rediscount which are secured by adjusted service certificates should be listed on the form of application provided for this purpose, which should be filled out so as to give full information as called for and should be signed by a duly authorized officer of the offering bank, i.e. by an officer designated in the resolution referred to in this paragraph. The form of resolution and the form of application referred to in this paragraph, copies of which were enclosed with our circular No. 1025, dated March 16, 1931, have not been revised and copies of such forms will be provided upon request.

GEORGE L. HARRISON,  
Governor.