

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3716]
June 4, 1951

REGULATION W
CONSUMER CREDIT

Pre-effective date "balloon" notes or payments

*To all Persons Concerned with Regulation W
in the Second Federal Reserve District:*

The subject of refinancing "balloon" notes written prior to September 18, 1950, the effective date of Regulation W, has been given further consideration, especially as it relates to the interpretation published at 222.117, 15 FEDERAL REGISTER 7756, November 15, 1950 and 1950 FEDERAL RESERVE BULLETIN 1612, entitled "Pre-effective date 'balloon' notes or payments." As a result, the Board of Governors of the Federal Reserve System has concluded that such interpretation should be revised to read as follows:

Pre-effective date "balloon" notes or payments.—The Board has considered certain questions concerning instalment credits involving so-called "balloon" notes or payments that were written before September 18, 1950, the effective date of Regulation W. In a typical case of the kind, there would be 11 notes followed by a 12th "balloon" note which may be in an amount several times the amount of each of the preceding notes. It appears that in most cases, because of the special nature of such financing, it was necessarily anticipated that the "balloon" note or payment written before September 18, 1950, would be refinanced when due so that the future instalment payments of the obligor would be approximately in the same amounts as the earlier payments.

In the circumstances, the Board is of the view that it may be presumed that arrangements for such refinancing were made between the parties at the time of the original transaction, and that section 8(h) of the regulation permits the carrying out of any such arrangement.

The views expressed above should be regarded as superseding the views expressed in any earlier interpretations under the regulation dealing with the same subject, including those stated at page 10 of our Circular No. 3687, dated April 2, 1951.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.