

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6833

March 5, 1931.

SUBJECT: New Regulations of Veterans' Bureau Regarding Loans Secured by Adjusted Service Certificates.

Dear Sir:

Pursuant to the Act of Congress approved February 27, 1931, amending Section 502 of the World War Adjusted Compensation Act with reference to loans upon adjusted service certificates, the Administrator of Veterans' Affairs has amended his regulations on this subject so as to conform to the provisions of the law as amended and there are enclosed herewith copies of these regulations in the amended form. Copies of the Federal Reserve Board's Regulation G amended to conform to the new law were forwarded to you in my letter of March 2nd.

By reference to the new regulations of the Administrator of Veterans' Affairs and to the Board's new Regulation G, it will be noted that, as to all loans made on the security of adjusted service certificates on and after February 27, 1931, the rate of interest must not exceed (a) simple interest at a rate not exceeding 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, or (b) $4\frac{1}{2}$ per cent per annum compounded annually, whichever is the lower.

It will also be noted that the Administrator of Veterans' Affairs has prescribed in his regulations a new form of note 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 extensions from year to year. The Federal Reserve Board's new Regulation G contains a provision that where there is such a provision for the extension of maturity of a note from year to year at the option of the holder evidenced by his endorsement thereon, the maturity of

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said note (after the first maturity stated therein) 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. The new form of note prescribed by the Administrator of Veterans' Affairs (U.S. Veterans' Bureau Form No. 6615-a) will, therefore, be eligible for rediscount at a Federal reserve bank whenever the maturity date stated in the latest extension endorsed on the note 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. Banks making loans on notes secured by adjusted service certificates, which do not desire to preserve the eligibility of such notes for rediscount after the first maturity may properly use the same form (U. S. Veterans' Bureau Form No. 6615) which has been used heretofore for making loans on the security of adjusted service certificates.

Copies of this letter and of the enclosures are being sent to all the branches of the Federal reserve banks.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS AND CHAIRMEN OF ALL F. R. BANKS.