

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

September 2, 1941

TELEGRAM

Federal Reserve Bank of

Boston

New York

Philadelphia

Cleveland

Richmond

Atlanta

Chicago

St. Louis

Minneapolis

Kansas City

Dallas

San Francisco

In order to clarify the status of renewals, revisions and consolidations (or "add-ons") under Regulation W during the period until November 1, when sections 8(a) and 8(b) on these subjects become effective, certain general principles applicable to such transactions during this period until November 1 are set out below:

1. Any instalment credit which was originally extended before September 1 may be renewed or revised once on or after September 1 on any terms which the Registrant would have granted in good faith in the absence of the regulation. In the case of the renewal or revision of a credit which was originally extended on or after September 1, or the renewal or revision of a credit which was originally extended before September 1 but has already been renewed or revised (or consolidated with a new credit) on or after September 1, the credit as renewed or revised may not have a maturity beyond 18 months from the date of the renewal or revision. This 18-months limitation, however, does not apply to a renewal or revision which relates to an obligation of a member of the armed forces of the United States incurred prior to his induction into the service, or which is necessary for the Registrant's protection in connection with an obligation which is in default and is the subject of bona fide collection effort by the Registrant.

2. The mere act of consolidating two separate obligations, or of "adding-on" one obligation to another, can confer no greater privileges than would apply if the obligations were treated separately. Accordingly, any new extension of credit which would be subject to a down payment requirement if made alone, is subject to the same requirement if consolidated with, or "added-on" to, an outstanding obligation.

3. Similarly, in determining the terms of repayment permissible when an extension of credit is consolidated with, or "added-on" to, an outstanding obligation of the same obligor, it is necessary to consider (a) the terms on which the outstanding obligation could be renewed or revised (for that is what its consolidation may in effect accomplish), and (b) the terms required for the additional extension of credit if it stood alone. The consolidated obligation may not provide for repayment at a slower rate than would have been permissible if the outstanding obligation were revised as permitted by the regulation and the new credit were extended in accordance with the regulation but the two credits were not consolidated.

4. While sections 8(a) and 8(b) which require a statement of necessity in certain cases do not become effective until November 1, section 8(g) of the regulation, which is in full effect beginning September 1, prohibits any extension of instalment credit in connection with which there is any evasive side-agreement for the subsequent renewing or revising of the credit. Therefore, any extension of instalment sale credit or instalment loan credit made on or after September 1 cannot be the subject of any contemporaneous agreement, arrangement or understanding by which renewals or revisions are to be used as a means of evading the requirements of the regulation. Any renewal or revision must be the bona fide result of developments coming after the making of the original extension of credit. Unless it is such a bona fide result of a subsequent development, it is prohibited by section 8(g).

(Signed) Chester Morrill

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