

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMINTERPRETATION OF LAW OR REGULATION

December 12, 1941

W-115. Board has been asked the following question:

"Registrant is asked to consolidate three outstanding obligations repayable \$10 each on 10th, 15th and 20th of current month respectively with an additional advance of \$90 repayable \$5 per month. In consolidating these obligations may Registrant, under section 8(b) 'Option One', schedule first payment of \$35 one month from date of such consolidation even though this may result in extending credit on outstanding obligations beyond the maximum 18 months maturity."

Option 1 requires that the terms of the consolidated obligation shall be such as would have been necessary to meet the requirements of the Regulation if no consolidation had taken place, and therefore the consolidated obligation can not have a schedule of payments which would have the effect of omitting a payment which would have been due on the outstanding obligations during the month when the consolidation took place, or which would have the effect of extending the maturity of any of the outstanding obligations beyond the terms permitted by the Regulation, namely, 18 months plus the 15-day adjustment permitted by section 9(b).

Under Option 1 the consolidated obligation can provide for one payment each month, and in order to accomplish this result the date of payment may be earlier in the month than the dates on which the instalments on any of the outstanding obligations were payable, or it may be later to the extent permitted by section 9(b) with respect to the outstanding obligations. For example, in the case described in the question, if the outstanding obligation which was repayable on the 10th of each month had been originally made on the 5th so that only 5 days out of the 15 days permitted by section 9(b) had been used, the consolidated obligation could call for instalments payable on the 20th.

Furthermore, the \$5 payable on account of the new \$90 advance would not have to be included in the first instalment but could be included in the instalment falling due in the month after the consolidation took place. In other words, the consolidated loan could have a \$30 instalment in the current month, and \$35 instalments in the next months.