



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

400

S-414

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 26, 1941

Dear Sir:

For your information there is enclosed a copy of a letter written to a Federal Reserve Bank regarding section 8(b) of Regulation W.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-414-a

December 26, 1941

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Receipt is acknowledged of your letter of December 16 addressed to Dr. Parry regarding section 8(b) of Regulation W.

The question, which is raised by an example in an interpretation of Regulation W prepared by the American Association of Personal Finance Companies, and also by another inquiry received by you, is as follows: Where a loan which was originally made for less than 18 months is consolidated under section 8(b) with an additional advance, do Options 1 and 2 require that the payments on the consolidated obligations be arranged on the basis of the terms which were in effect on the outstanding obligation at the time of consolidation, or may the terms of the consolidated obligation be arranged on the basis which would have been permissible under Option 1 or Option 2 if the terms of the outstanding obligation had been extended to the full 18 months prior to the consolidation?

Section 8(b) refers to the rate of payment on the outstanding obligation which was in effect at the time of consolidation, and therefore might be interpreted as prohibiting a consolidation based on any longer terms. However, under section 8(a) and section 8(c) the outstanding obligation could be revised to an 18-month basis, and immediately after such revision an additional loan could be made and then consolidated with the previous obligation, as revised. In other words by performing the transaction in two steps, the result could be accomplished without violating the literal terms of the Regulation. Accordingly, it would be futile to say that the Registrant is prohibited from accomplishing the result in one step. Therefore the Board is of the opinion that the example given by the American Association of Personal Finance Companies is correct.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.