



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

402

S-415

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 30, 1941

Dear Sir:

For your information there is enclosed a copy of a letter written to a Federal Reserve Bank regarding the question whether a proposed schedule of payments complies with the requirements of Section 5(c)(2) of Regulation W.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,  
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-415-a

December 24, 1941

Mr. \_\_\_\_\_,  
Federal Reserve Bank of \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

Receipt is acknowledged of your letter of December 11 enclosing a copy of a letter dated December 3 from the \_\_\_\_\_ Finance Corporation to Mr. \_\_\_\_\_, Assistant Deputy Superintendent, Banking Department, State of \_\_\_\_\_.

The question is whether a proposed schedule of payments complies with the requirements of section 5(c)(2) of Regulation W which requires that no instalment shall be substantially greater than any preceding instalment. The schedule calls for 15 monthly payments which are equal in amount, followed by 3 smaller payments to cover the remaining balance of principal and interest. However, in order to avoid undue complexity in calculating the amounts of the various payments, and also in order to avoid a conflict with certain State requirements, the last payment is larger than the preceding payment, although, as stated above, all of the last 3 payments are substantially smaller than the 15 preceding payments.

The principal purpose of section 5(c)(2) was to prevent a balloon note at the end of the series. Obviously the schedule of payments described in the letter of the \_\_\_\_\_ Finance Company is not in conflict with this purpose, and in view of the fact that the last payment is very much smaller than any of the first 15 payments, the Board is of the opinion that it should not be regarded as violating the above requirement of the Regulation.

A somewhat similar question was presented by another inquiry received from Mr. \_\_\_\_\_ in \_\_\_\_\_. In that case certain of the instalments were increased by adding semiannual or other periodic interest payments. In case you may be interested, a copy of the Board's reply to Mr. \_\_\_\_\_ is enclosed.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.

Enclosure

TS-415-b

November 28, 1941

Mr. \_\_\_\_\_,  
Federal Reserve Bank of \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

Receipt is acknowledged of your letter of November 7 and enclosures regarding the practice of certain banks in your district of making instalment loans calling for repayment of the principal in equal monthly instalments but for payment of interest quarterly or semiannually on the diminishing balance. The question is whether this practice is permissible in view of section 5(c)(2) which provides that no instalment shall be substantially greater in amount than any preceding instalment.

The principal purpose of section 5(c)(2) was to prevent a balloon note at the end of the series, and obviously the practice to which you refer is not in conflict with this purpose. Furthermore, where the difference in the size of various monthly payments is the result of adding interest, the difference will usually be small as compared with a difference resulting from a larger payment of principal. Of course extreme cases may be imagined, as where all of the interest on a 12-month loan is payable with the final instalment, which might result in a final instalment nearly double the amount of the preceding instalment. On the other hand, where the interest on such a loan is payable quarterly, the arrangement would usually not be in conflict with the Regulation.

It is not possible to lay down a fixed rule, since the word "substantially" must be interpreted in the light of the facts of each case, but it is hoped the general principles discussed above will enable you to handle particular inquiries.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.