

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

S-418

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 3, 1942



Dear Sir:

Enclosed is a copy of a telegram regarding section 8(c) of Regulation W. A copy of this telegram has already been telegraphed to your Bank under date of December 20, 1941.

Very truly yours,

A handwritten signature in black ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, written over a horizontal line.

L. P. Bethea,  
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-418-a

December 20, 1941

(Addressed to a Federal Reserve Bank)

Your wire December 5. A borrower who has contracted to pay 18 monthly instalments of \$25 each and who becomes four months past due in the middle of the contract may borrow \$100 from another lender on an 18-month basis in view of the fact that section 8(c) refers only to "retire" and not to "reduce". However, the original lender could not lend him \$100 with which to pay the past-due instalments since that would be in effect a lengthening of the maturity of the original loan without a statement of necessity.

If the four payments were at the end of an 18-month contract the loan by the new lender would be to "retire" and therefore could not be made without a statement of necessity.

If the past due payments were in the middle of the 18-month contract, the new lender could not take over the entire contract without a statement of necessity. The new loan could not be made under section 8(b) because the past due instalments and the instalments not yet due are not two separate obligations. The new loan could not be made with the entire outstanding balance divided into equal monthly instalments over the remainder of the original 18 months' maturity because that would have the effect of revising the contract so as to make the last instalments substantially greater than the earlier instalments.

(Signed) Chester Morrill