



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

S-422

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 8, 1942

Dear Sir:

Enclosed for your information is a copy of a letter written to a Federal Reserve Bank regarding the requirements of Regulation W in a case where an obligor finds that he is unable to make one of his monthly payments and desires to make it at a later date.

Very truly yours,

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

Chester Morrill,  
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

January 7, 1942

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

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

This refers to your letter of November 29 regarding the effect of Regulation W on an instalment contract originally drawn for 12 months, where the borrower is unable to make one of the monthly payments and desires to make it on the 13th month. The question is a rather troublesome one, and the delay in answering your letter has been the result of the study which has been given to it by various members of the Board's staff.

As you point out, it would be undesirable to require the use of the Statement of Necessity to make minor adjustments of a kind which are apt to occur in a fairly large proportion of cases. To do so would encourage evasion on the part of some Registrants, and would cause annoyance at "useless formalities" on the part of others. Similarly, it would be undesirable to encourage resort to the provision in section 8(a)(2) regarding defaulted contracts in the type of case to which you refer since that provision also was intended to provide for exceptional cases, and not for the common type of case where only a slight readjustment is required.

However, Regulation W does not require a Registrant to take any action when a payment is omitted or paid only in part. If a Registrant wishes to revise or rewrite the contract, he must comply with the applicable provisions of the Regulation, such as section 3(a), section 3(d) and section 3(a)(2)(B). However, if a Registrant in the ordinary course of business merely refrains from foreclosing, repossessing or bringing suit in a case such as you describe, he would not be violating the Regulation, unless, of course, he were acting pursuant to a scheme designed to evade the Regulation. Obviously, if a Registrant made a practice of taking no action in such cases, and if the practice were known to his obligors, there would be at least a presumption that he was evading the Regulation.

This will probably furnish a practical solution to the problem in most cases, but we will be very glad to receive any comments or suggestions which you may have regarding it.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.