

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-456

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 27, 1942



Dear Sir:

Questions have been received regarding instalment obligations created before the effective date of Amendment No. 3 to Regulation W and the extent to which a creditor may revise the terms of such an obligation, extending its maturity, without requiring a Statement of Necessity. The applicable rule in such cases depends on whether the obligation was or was not subject to the regulation when it was created.

In the case of a revision of an obligation that was subject to the regulation before March 23, 1942, the effective date of Amendment No. 3, the rule is stated in section 8(a), that is, the revision may not change the terms to any which would not have been "permitted in the first instance" for the credit. For example, if an automobile was sold with a 12 months' maturity in December 1941 when 18 months was permissible, it could be revised even after March 23 1942 to increase the maturity by six months, since this would still result in a maturity of only 18 months as permitted in the first instance.

To determine the applicable rule for the revision after March 23, 1942 of an instalment obligation growing out of the sale before that date of an article added to the list by the amendment, section 8(a) must be read in connection with the last part of the paragraph added to section 9(d) by the amendment. When read together these state that in such a case the obligation may not be revised to terms which, when reckoned from the date of the sale, would not be permitted under the amendment. For example, suppose a watch was sold with a 12 months' maturity in December 1941 when the transaction was not subject to the regulation. If the obligation is revised after March 23, 1942 when watches have become listed articles, the maturity may be increased by only three months since this would result in a total maturity of 15 months, the longest permitted under the amendment for such credit.

Very truly yours,

L. P. Bethea
L. P. Bethea,
Assistant Secretary.

