

S-490

TELEGRAM

May 26, 1942

(Addressed to the Presidents of all Federal Reserve Banks)

Several questions regarding WR-1 and related matters are discussed below.

As explained in WR-1, a single-payment loan made before May 6 may be renewed more than once. Furthermore, the borrower may pay a portion of the loan at the time of any such renewal, or the loan may be put on an instalment basis without regard to the requirements of section 6(b) or any other provision of the Regulation. It is to be noted, however, that the absence from Regulation W of restrictive provisions with respect to such renewals or conversions is not intended to encourage them, but must be considered in the light of the joint statement made for the press on May 7 by the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System. This joint statement will be published in the Federal Reserve Bulletin for June.

A loan of over \$1,500 is not subject to the Regulation whether the loan is single-payment or instalment, whether made before or after May 6, or whether all or part is to be used to pay off a previous indebtedness with the same lender or another lender. On the other hand, if the obligor on a \$1,000 note borrows another \$800 from the same lender as a separate transaction evidenced by a separate note, the new \$800 loan is subject to the Regulation.

If instead of renewing or revising a single-payment loan made prior to May 6, the obligor makes one loan (of \$1,500 or less) part of which is to be used to pay off the old single-payment loan and part of which represents new money, only the part of the new loan representing new money is subject to the requirements of the Regulation. However, in any such case it would ordinarily be better practice for the lending institution to keep the credits separate and not to combine them in a single obligation since otherwise it might be difficult for the lending institution and for the examiners to be sure that there was no violation of the Regulation.

A renewal or revision of a loan which was originally more than \$1,500 is not subject to the Regulation even though the balance at the time of the renewal or revision is less than \$1,500.

(Signed) Chester Morrill