

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



S-583

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 12, 1942.

Dear Sir:

The Board has received several inquiries regarding section 10(a)(2) of Regulation W, and these inquiries are discussed below.

The first inquiry is whether a Registrant may discount and receive payments upon an obligation which prior to discounting has been renewed or revised pursuant to the provisions of section 10(a)(2) so as to have a maturity which would not have been permissible under the Regulation in the first instance.

The Board is of the opinion that section 3(a)(3) would not prevent such action by the Registrant, since the renewal or revision is one which is expressly authorized by the Regulation.

The second inquiry relates to the terms on which a Registrant may make a loan to a debtor to retire his instalment indebtedness to another creditor where the maturity of the indebtedness has already been extended by the other creditor under section 10(a)(2).

The Board is of the opinion that the Registrant may make such a loan on the same terms as the obligation being retired. The obligation being retired is in conformity with section 10(a)(2); and section 10(c) permits a lender, in making a loan to retire a regulated instalment credit, to extend terms as liberal as the terms of the credit being retired if those terms are in conformity with the Regulation.

The third inquiry is whether a Registrant who has purchased a delinquent instalment obligation and has exercised a bona fide collection effort, may then revise the obligation under section 10(a)(2) on terms not initially permissible.

The Board is of the opinion that this may be done, but it should be emphasized that the change in ownership of the paper

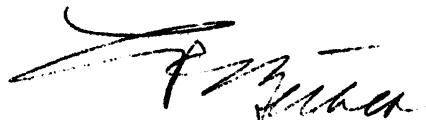


does not change the responsibility of the holder to make every effort to collect it in accordance with its terms. Furthermore, the revision must not be made on terms longer than are necessary in good faith for the Registrant's own protection.

The theory of section 10(a)(2) is that an adjustment with the customer should not be prevented if that is the only feasible way in which the credit can be collected. Any such adjustment must be the last resort (except, of course, litigation) and a measure to be taken only after other means of collection have been exhausted.

Each of the foregoing points with respect to section 10(a)(2) is consistent with the principle of that section, namely, that it may be applied only for the protection of the Registrant who holds the obligation which is in default and who is making the adjustment. If section 10(a)(2) is applied in accordance with the principles herein expressed, it is not believed that any undue weakening of the Regulation will result. On the other hand, if you should encounter any evidence suggesting that Registrants may be using this section improperly, we shall appreciate information as to such situations as well as suggestions as to any action, including an amendment, that you may consider desirable.

Very truly yours,



L. P. Bethea,  
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.