

# MUTUAL MORTGAGE INSURANCE

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ADMINISTRATIVE RULES  
AND  
REGULATIONS  
UNDER TITLE II  
OF THE  
NATIONAL HOUSING ACT

(EXCEPT OPERATIONS UNDER SECTION 207—LOW-COST HOUSING INSURANCE)

FEDERAL  
HOUSING ADMINISTRATION



REVISED OCTOBER 1, 1937

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WASHINGTON, D. C.

**ADMINISTRATIVE RULES  
OF THE  
FEDERAL HOUSING ADMINISTRATOR  
FOR  
MUTUAL MORTGAGE INSURANCE  
UNDER TITLE II OF THE  
NATIONAL HOUSING ACT**

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**SECTION I**

**APPROVAL OF MORTGAGEES**

1. The following institutions are hereby approved as mortgagees under Section 203 (b) of the National Housing Act:

- (a) National Mortgage Associations,
- (b) Federal Reserve Banks,
- (c) Federal Home Loan Banks,
- (d) Reconstruction Finance Corporation,
- (e) RFC Mortgage Company, and
- (f) any other Federal, State or municipal governmental agency that is or may hereafter be empowered to hold mortgages insured under Title II of the National Housing Act as security or as collateral or for any other purpose.

2. Members of the Federal Reserve System, of the Federal Deposit Insurance Corporation, and of the Federal Home Loan Bank System will be approved as mortgagees upon application.

3. Any charitable or nonprofit organization which presents evidence that it is responsible, has permanent funds of not less than one hundred thousand dollars (\$100,000), and has experience in mortgage investment, may be approved upon application.

4. Any other institution not hereinbefore mentioned will be approved as a mortgagee upon application if it has the following qualifications and meets the following conditions to the satisfaction of the Administrator:

- (a) it is a chartered institution or other permanent organization having succession;

- (b) it is subject to the inspection and supervision of some governmental agency: or  
if not subject to inspection and supervision by some governmental agency, it shall submit an independent detailed audit of its books made by an accountant satisfactory to the Administrator and reflecting a condition satisfactory to him, and also, so long as its approval as a mortgagee continues, shall file with the Administrator similar audits at least once in each calendar year and submit at any time to such examination of its books and affairs as the Administrator may require, and comply with any other conditions that the Administrator may impose:
- (c) its principal activity is lending on or investing in mortgages, funds which are under its own control; and it has sound capital funds properly proportioned to its liabilities and to the character and extent of its operations, which funds shall be of a value of not less than one hundred thousand dollars (\$100,000): provided, that this qualification and condition as to the minimum amount of capital funds shall not apply.
- (1) to an institution or other permanent organization subject to the inspection and supervision of some governmental agency, or
  - (2) to an institution or other permanent organization that establishes to the satisfaction of the Administrator that it is a duly authorized loan correspondent of, and if its approval is requested by, an approved mortgagee or assignee which lends on, or invests in, mortgages on a national scale and is subject to the inspection and supervision of some governmental agency, on the condition that the termination of its relationship as such correspondent will be cause (subject to the provisions of subsection (6) of this section) for withdrawal of its approval as an approved mortgagee and on the further condition that the correspondent institution and the institution for which it is authorized to act shall agree to promptly notify the Administrator of the termination of such relationship: and
- (d) if it is not subject to the inspection and supervision of some governmental agency, it shall submit an agree-

ment in writing: (1) that so long as it continues to be approved as a mortgagee, it will not issue any mortgage participating certificates on which it assumes personal liability, or issue any guaranty with respect to principal or interest of any mortgage, except that any such obligations outstanding on the date of the application of such institution may thereafter be renewed; and (2) that it will segregate all monthly payments under mortgages insured by the Administrator, received by it on account of ground rents, taxes, assessments, and insurance premiums, and will deposit such funds in a special account, or accounts, with some banking institution which is subject to the inspection and supervision of some governmental agency and shall use such funds for no purpose other than that for which they were received.

5. Approval as a mortgagee under this section, of a banking institution or trust company which is subject to the inspection and supervision of some governmental agency, shall be deemed to constitute approval of such institution or company when lawfully acting in a fiduciary capacity in investing fiduciary funds which are under its individual or joint control. Any instrument creating such fiduciary relationship shall be irrevocable and shall provide that upon termination or distribution, any insured mortgages held in the fiduciary estate shall be disposed of to a mortgagee approved under this or the succeeding section.

Nothing in this section shall be construed to permit the sale to the general public of instruments representing the beneficial interest in all or part of one or more insured mortgages.

6. Approval of an institution as a mortgagee may be withdrawn at any time by notice from the Administrator. In the discretion of the Administrator, the transfer of an insured mortgage to a mortgagee not approved to act under this or the succeeding section, or the failure of a mortgagee not subject to the inspection and supervision of some governmental agency, to segregate all funds received from mortgagors on account of ground rents, taxes, assessments and insurance premiums, and to deposit such funds in a special account, or accounts, with some banking institution which is subject to the inspection and supervision of some governmental agency, or the use of such funds for any purpose other than that for which they were received will be cause for withdrawal of approval. Withdrawal of approval will in no case affect the insurance on mortgages theretofore accepted for insurance.

## SECTION II

## APPROVAL OF ACCEPTABLE ASSIGNEES

1. The Administrator will upon application approve a chartered institution or other permanent organization as an acceptable assignee if such institution or organization meets the following conditions to the satisfaction of the Administrator:

- (a) it is a corporation or other permanent organization having succession;
- (b) it has sound capital funds of not less than \$100,000;
- (c) it is subject to the inspection and supervision of some governmental agency;
- (d) its investments in mortgage loans are intended for its own portfolio; and
- (e) its facilities are such that it will be able properly to service mortgages held by it.

2. Such an acceptable assignee shall be entitled to acquire insured mortgages from approved mortgagees by assignment after the execution and insurance of such mortgages, and to hold such mortgages without invalidating the insurance thereof, and to service them while so held. An acceptable assignee is not authorized to initiate insured mortgage loans originally or to apply for the insurance of mortgages under Section 203 (a) of the National Housing Act; but shall in all other respects be considered as included in the term "mortgagee" as used in these Administrative Rules and the Regulations of the Federal Housing Administrator.

3. Approval of an institution as an acceptable assignee may be withdrawn at any time by notice from the Administrator. Except in individual cases, approved by the Administrator, transfer of an insured mortgage to a mortgagee not approved to act under this or the preceding section will be cause for withdrawal of approval. Withdrawal of approval will in no case affect the insurance on mortgages theretofore accepted for insurance.

## SECTION III

## APPLICATION FOR INSURANCE

1. Any approved mortgagee may submit an application for insurance of a mortgage about to be executed, or of a mortgage already executed, if offered for insurance within one year from the date of execution.

2. The application must be made upon a standard form prescribed by the Administrator.

3. The application must be accompanied by the mortgagee's check for a sum computed at a rate of three dollars (\$3) per thousand dollars (\$1.000) of the original principal amount of the mortgage

loan to be insured, to cover the costs of appraisal by the Administrator, but in no case shall such sum be less than ten dollars (\$10). If an application is refused without an appraisal being made by the Administrator, the fee will be returned to the applicant.

If, after insurance, the amount of an insured mortgage is increased either by amendment or by the substitution of a new insured mortgage the fee herein provided for shall be based upon the amount of such increase but in no case shall be less than ten dollars (\$10).

The Administrator may agree on fees different from those fixed in this subsection in cases where substantially all residential mortgages and real estate owned or held by an approved mortgagee are examined for mortgage insurance as one operation.

## SECTION IV

### ELIGIBLE MORTGAGES

To be eligible for insurance—

1. The mortgage must be executed upon a form approved by the Administrator for use in the jurisdiction in which the property covered by the mortgage is situated, by a mortgagor with the qualifications hereinafter set forth in Section V, must be a first lien upon property that conforms with the property standards prescribed by the Administrator, and the entire principal amount of the mortgage must have been disbursed to, or for the account of, the mortgagor.

2. The mortgage should involve a principal obligation in an amount of one hundred dollars (\$100) or multiples thereof but must not exceed sixteen thousand dollars (\$16,000) and must not exceed eighty per centum (80%) of the appraised value of the property as of the date the mortgage is insured.

3. The mortgage must have a maturity satisfactory to the Administrator, not to be less than three (3) nor more than twenty (20) years from the date of its execution as shown by the instrument, and should come due upon the first day of a month.

4. The mortgage may bear interest at such rate as may be agreed upon between the mortgagee and the mortgagor, but in no case shall such interest rate be in excess of five per centum (5%) per annum. Interest shall be payable in monthly installments on the principal then outstanding.

5. The mortgage must contain complete amortization provisions satisfactory to the Administrator, requiring monthly payments by the mortgagor not in excess of his reasonable ability to pay as determined by the Administrator. The sum of the principal and interest payments in each month shall be substantially the same. The period during which amortization payments are made should be an exact number of years, or nineteen (19) years and six (6) months.

6. The mortgage may require the mortgagor to pay to the mortgagee an annual service charge at such rate as may be agreed upon between the mortgagee and the mortgagor, but in no case shall such service charge exceed one-half of one per centum ( $\frac{1}{2}\%$ ) per annum upon outstanding monthly balances. Any such service charge shall be payable in monthly installments.

7. The mortgage may provide for monthly payments by the mortgagor to the mortgagee of an amount equal to one-twelfth ( $\frac{1}{12}$ ) of the annual mortgage insurance premium payable by the mortgagee to the Administrator. Such payments shall continue only so long as the contract of insurance shall remain in effect. The mortgage should provide that upon the payment of the mortgage before maturity, the mortgagor shall pay the premium charge referred to in Article III, Section 2, of the Regulations.

In the case of building and loan associations in the Commonwealth of Pennsylvania the mortgage may provide for monthly payments by the mortgagor of an amount equal to one-twelfth ( $\frac{1}{12}$ ) of three-fourths of one per centum ( $\frac{3}{4}\%$ ) annually of the original mortgage obligation, in lieu of the service charge and the payments to put the mortgagee in funds to pay the mortgage insurance premium, provided for in subsection 6 and the first paragraph of this subsection.

8. The mortgage shall provide for such equal monthly payments by the mortgagor to the mortgagee as will amortize the ground rents, if any, and the estimated amount of all taxes, special assessments, if any, and fire and other hazard insurance premiums, within a period ending one month prior to the dates on which the same become delinquent. The mortgage shall further provide that such payments shall be held by the mortgagee in a manner satisfactory to the Administrator, for the purpose of paying such ground rents, taxes, assessments, and insurance premiums, before the same become delinquent, for the benefit and account of the mortgagor. The mortgage must also make provision for adjustments in case the estimated amount of such taxes, assessments, and insurance premiums shall prove to be more, or less, than the actual amount thereof so paid by the mortgagor.

9. All monthly payments to be made by the mortgagor to the mortgagee as hereinabove provided, in subsections 4 to 8, inclusive, shall be added together and the aggregate amount thereof shall be paid by the mortgagor each month in a single payment. The mortgagee shall apply the same to the following items in the order set forth:

- (a) premium charges under the contract of insurance;
- (b) service charge, if any;

- (c) ground rents, taxes, special assessments, and fire and other hazard insurance premiums;
- (d) interest on the mortgage; and
- (e) amortization of the principal of the mortgage.

Any deficiency in the amount of any such aggregate monthly payment shall, unless made good by the mortgagor prior to the due date of the next such payment, constitute an event of default under the mortgage.

10. The mortgage may provide for a charge by the mortgagee of a "late charge", not to exceed two (2) cents for each dollar of each payment more than fifteen (15) days in arrears, to cover the extra expense involved in handling delinquent payments.

11. The mortgagor must pay to the mortgagee, upon the execution of the mortgage, a sum that will be sufficient to pay the ground rents, if any, and the estimated taxes, special assessments, and fire and other hazard insurance premiums for the period beginning on the date to which such ground rents, taxes, assessments, and insurance premiums were last paid and ending on the date of the first monthly payment under the mortgage and may be required to pay a further sum equal to one annual mortgage insurance premium, plus one-twelfth of such sum.

12. The mortgagee may charge the mortgagor the amount of the appraisal fee provided for in subsection 3 of Section III and an initial service charge to reimburse itself for the cost of closing the transaction. Such service charge shall not exceed one per centum (1%) of the original principal amount of the mortgage or a charge of twenty dollars (\$20), whichever is the greater, except that in cases of property under construction or to be constructed where the mortgagee makes partial disbursements and inspections of the property during the progress of construction, such initial service charge may be in an amount not in excess of two and one-half per centum (2½%) of the original principal amount of the mortgage or a charge of fifty dollars (\$50), whichever is the greater.

13. In addition to the charges hereinbefore mentioned, the mortgagee shall collect from the mortgagor only recording fees and such appraisal fees and cost of title search as are approved by the Administrator. Nothing in this and the preceding subsection shall be construed as prohibiting the mortgagor from dealing through a broker, who does not represent the mortgagee, if he prefers to do so, and paying the broker such compensation as is satisfactory to the mortgagor.

14. The mortgage must be executed with respect to a project which, in the opinion of the Administrator, is economically sound.



## SECTION V

## ELIGIBLE MORTGAGORS

1. A mortgagor must establish that after the mortgage offered for insurance has been recorded, the mortgaged property will be free and clear of all liens other than such mortgage and that there will not be outstanding any other unpaid obligation contracted in connection with the mortgage transaction or the purchase of the mortgaged property, except obligations which are secured by property or collateral owned by the mortgagor independently of the mortgaged property.

2. A mortgagor must establish that the periodic payments required in the mortgage submitted for insurance bear a proper relation to his present and anticipated income and expenses.

3. A mortgagor must have a general credit standing satisfactory to the Administrator.

4. A mortgagor is not restricted as to place of residence and need not be the occupant of the property covered by the mortgage.

## SECTION VI

## ELIGIBLE PROPERTIES

1. A mortgage to be eligible for insurance must be on real estate held in fee simple, or on leasehold under a lease for not less than ninety-nine (99) years which is renewable, or under a lease with a period of not less than fifty (50) years to run from the date the mortgage is executed.

2. At the time a mortgage is insured there must be located on the mortgaged property a dwelling unit designed principally for residential use for not more than four families. Such unit may be connected with other dwellings by a party wall or otherwise.

3. The buildings on the mortgaged property must conform with the standards prescribed by the Administrator.

4. The mortgaged property, if otherwise acceptable to the Administrator, may be located in any community where the housing standards meet the requirements of the Administrator.

## SECTION VII

## EFFECTIVE DATE

These Administrative Rules are effective as to all mortgages on which a commitment to insure is issued to an approved mortgagee on or after October 1, 1937.

Issued at Washington, D. C., September 15, 1937.

STEWART McDONALD,

*Federal Housing Administrator.*

**REGULATIONS  
OF THE  
FEDERAL HOUSING ADMINISTRATOR  
FOR  
MUTUAL MORTGAGE INSURANCE  
UNDER TITLE II OF THE  
NATIONAL HOUSING ACT**

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**ARTICLE I**

These Regulations may be cited and referred to as “Regulations of the Federal Housing Administrator for Mutual Mortgage Insurance, dated November 1, 1934, as amended October 1, 1937.”

**ARTICLE II**

**DEFINITIONS**

As used in these Regulations—

1. The term “Administrator” means the Federal Housing Administrator.
2. The term “Act” means the National Housing Act.
3. The term “mortgage” means such a first lien upon real estate as is commonly given to secure advances on, or the unpaid purchase price of, real estate under the laws of the jurisdiction where the real estate is situated, together with the credit instruments if any, secured thereby.
4. The term “insured mortgage” means a mortgage accepted by the Administrator for insurance.
5. The term “mortgagor” means the original borrower under a mortgage and his heirs, executors, administrators, and assigns.
6. The term “mortgagee” means the original lender under a mortgage and its successors and such of its assigns as are approved by the Administrator.
7. The term “contract of insurance” means the endorsement of the Administrator upon the credit instrument given in connection with an insured mortgage, incorporating by reference these Regulations.

## ARTICLE III

## PREMIUMS

1. The mortgagee shall pay to the Administrator an annual mortgage insurance premium equal to one-half of one per centum ( $\frac{1}{2}\%$ ) of the original principal amount of the mortgage, the first such premium to be paid on the date on which such insurance becomes effective by endorsement. Until the mortgage is paid in full, or the mortgaged property is acquired by the Administrator, as hereinafter set forth, or until the contract of insurance is otherwise terminated, the next and each succeeding premium shall be paid thereafter on the same date in each year as that on which the mortgage, by its original terms, is to mature, and the amount of the premium payment for the second year will be adjusted so as to accord with such payment date.

2. In the event that the principal obligation of any mortgage accepted for insurance is paid in full prior to maturity, the mortgagee shall within thirty (30) days thereafter notify the Administrator of the date of prepayment and shall collect from the mortgagor and pay to the Administrator a prepayment premium charge of one per centum (1%) of the original principal amount of the prepaid mortgage, except that if at the time of such prepayment there is placed on the mortgaged property a new insured mortgage in an amount less than the original amount of the prepaid mortgage, such prepayment premium shall be one per centum (1%) of the difference in such amounts.

In no event shall the prepayment premium exceed the aggregate amount of premium charges which would have been payable if the mortgage had continued to be insured until maturity.

No prepayment premium shall be collected by the mortgagee in the following cases:

- (a) where at the time of such prepayment there is placed on the mortgaged property a new insured mortgage for an amount equal to or greater than the original principal amount of the prepaid mortgage; or
- (b) where the final maturity specified in the mortgage is accelerated solely by reason of partial prepayments made by the mortgagor which do not exceed in any one calendar year fifteen per centum (15%) of the original face amount of the mortgage; or
- (c) where the final maturity specified in the mortgage is accelerated solely by reason of payments to principal to compensate for (1) damage to the mortgaged prop-

- erty, or (2) a release of a part of such property if approved by the Administrator; or
- (d) where payment in full is made of a delinquent mortgage on which foreclosure proceedings have been commenced, or for the purpose of avoiding foreclosure, if the transaction is approved by the Administrator.

Upon such prepayment the contract of insurance shall terminate.

3. In the event that the Administrator terminates, under Section 3 of Article VI, the insurance as to the group to which the insured mortgage is assigned, the mortgagee shall pay to the Administrator an amount equal to that proportion of the annual insurance premium which would otherwise have been payable for the period between the date to which the premium has been paid and the maturity date of the mortgage.

**ARTICLE IV**

**ACCEPTANCE FOR INSURANCE**

1. Upon accepting a mortgage for insurance, the Administrator shall endorse the original credit instrument in form as follows:

No. -----  
 Insured under the  
 National Housing Act  
 And Regulations of the  
 Federal Housing Administrator  
 For Mutual Mortgage Insurance  
 Dated November 1, 1934  
 as amended -----  
**FEDERAL HOUSING ADMINISTRATOR**  
 By -----  
 Authorized agent  
 Date -----

The mortgage shall be an insured mortgage from the date of such endorsement. The Administrator and the mortgagee shall thereafter be bound by these Regulations with the same force and to the same extent as if a separate contract had been executed relating to the insured mortgage, including the provisions of these Regulations and of the National Housing Act.

2. A number shall be inserted in each endorsement after the word "No."; and thereafter each contract of insurance may be referred to as "Contract of Insurance No. -----", inserting in such blank the number that appears in the endorsement.

3. After the words "as amended" there shall be inserted the words "October 1, 1937."

## ARTICLE V

## CLASSIFICATION OF MORTGAGES

1. Mortgages accepted for insurance shall be so classified in groups that the mortgages in any group shall involve substantially similar risk characteristics and have similar maturity dates.

2. Premium charges received for the insurance of any mortgage, the receipts derived from the property covered by the mortgage and claims assigned to the Administrator in connection therewith, and all earnings on the assets of the group account shall be credited to the account of the group to which the mortgage is assigned.

3. The principal of, and interest paid or to be paid on, debentures issued in exchange for any property, payments made or to be made to the mortgagee and mortgagor, and expenses incurred in the handling of the property covered by the mortgage and in collection of claims assigned to the Administrator in connection therewith, shall be charged to the account of the group to which such mortgage is assigned.

## ARTICLE VI

## RIGHTS AND DUTIES OF AN APPROVED MORTGAGEE UNDER THE CONTRACT OF INSURANCE

1. Whenever the credit balance in the account of the group to which the insured mortgage has been assigned exceeds the remaining unpaid principal of the insured mortgage and all other outstanding insured mortgages assigned to the same group by an amount equal to ten per centum (10%) of the total premium payments which have theretofore been credited to such account, the Administrator shall pay to the mortgagee under the insured mortgage (whether such mortgage is in good standing or not) for the benefit and account of the mortgagor a sum equal to what the unpaid principal of the insured mortgage is, if in good standing, or would be if it were in good standing, as the case may be. Upon such payment by the Administrator the contract of insurance shall terminate.

2. The mortgagee shall accept such payment and apply it in satisfaction of the obligation of the mortgagor under the insured mortgage. If such insured mortgage is in good standing and such payment is sufficient to satisfy the obligation of the mortgagor under it in full, the mortgagee shall coincidentally deliver to the mortgagor any instrument or instruments necessary or proper to discharge the insured mortgage.

3. If the credit balance in the account of the group to which the insured mortgage is assigned fails to exceed, before the first day of the month one year prior to the maturity date of the insured mort-

gage, the remaining unpaid principal of the then outstanding insured mortgages assigned to such group by an amount equal to ten per centum (10%) of the total premium payments which have theretofore been credited to such account, the Administrator, on the first day of the month one year prior to the maturity date of the insured mortgage and after receipt from the mortgagee of the premium provided for in section 3 of Article III, if any, shall—

- (a) transfer to the general reinsurance account, an amount equal to ten per centum (10%) of the total premium charges theretofore credited to such group account; and
- (b) transfer to the mortgagee, for the benefit and account of the mortgagor, such proportion of the credit balance remaining in such group account as the outstanding face amount of the insured mortgage bears to the total outstanding face amount of all insured mortgages assigned to such group.

The contract of insurance covering such mortgage shall thereupon terminate, and the mortgagee shall apply such payment against the principal of the insured mortgage.

4. If the mortgagor pays the insured mortgage in full prior to its final maturity date, and pays to the mortgagee the premium charge provided for in section 2 of Article III, if any, the Administrator shall thereupon pay over to the mortgagor such share of the credit balance of the account of the group to which the insured mortgage has been assigned as the Administrator shall determine to be equitable and not inconsistent with the preservation of the solvency of such account and of the Mutual Mortgage Insurance Fund.

5. If the mortgagor fails to make any payment, or to perform any other covenant or obligation under the mortgage, and such failure continues for a period of thirty (30) days, the mortgage shall be considered in default, and the mortgagee shall, within thirty (30) days thereafter, give notice in writing to the Administrator of such default, unless the Administrator has been notified of a previous default which remains uncured.

6. At any time within one year from the date of default the mortgagee, at its election, shall either—

- (a) with, and subject to, the consent of the Administrator, acquire by means other than foreclosure of the mortgage, possession of, and title to, the mortgaged property; or
- (b) commence foreclosure of the mortgage; provided, that if the laws of the State in which the mortgaged property is situated do not permit the commencement of such

foreclosure within such period of time, the mortgagee shall commence such foreclosure within thirty (30) days after the expiration of the time during which such foreclosure is prohibited by such laws.

The mortgagee shall promptly give notice in writing to the Administrator of the institution of foreclosure proceedings and shall exercise reasonable diligence in prosecuting such proceedings to completion.

For the purposes of this section, the date of default shall be considered as thirty (30) days after (a) the first uncorrected failure to perform a covenant or obligation, or (b) the first failure to make a monthly payment which subsequent payments by the mortgagor are insufficient to cover when applied to the overdue monthly payments in the order in which they became due.

If after default and prior to the completion of foreclosure proceedings, the mortgagor shall pay to the mortgagee all monthly payments in default and such expenses as the mortgagee shall have incurred in connection with the foreclosure proceedings, notice shall be given to the Administrator, and the insurance shall continue as if such default had not occurred.

7. If the default is not cured as aforesaid, and if the mortgagee has otherwise complied with the provisions of section 6 of this Article, and at any time within thirty (30) days (or such further time as may be necessary to complete the title examination and perfect such title) after acquiring possession of the mortgaged property by foreclosure, or by other means in accordance with subsection (a) of section 6 of this Article, tenders to the Administrator possession of, and a deed containing a covenant which warrants against the acts of the mortgagee and all claiming by, through, or under it, conveying good merchantable title (evidenced as hereinafter provided in section 8 of this Article) to, such property undamaged by waste, fire, earthquake, flood, tornado, or subsidence caused by mining operations, and assigns (without recourse or warranty) any and all claims which it may have acquired in connection with the mortgage transaction, and as a result of the foreclosure proceedings or other means by which it acquired such property, the Administrator shall promptly accept conveyance of such property and such assignment and shall deliver to the mortgagee:

- (a) Debentures of the Mutual Mortgage Insurance Fund as set forth in Section 204 (b) of the Act, bearing interest at the rate of three per centum (3%) per annum payable semi-annually on the first day of January and the first day of July of each year, and having a total face value equal to the unpaid amount of the principal of

the mortgage, as defined in Section 204 (a) of the Act (including all taxes and premiums for insurance against fire and other hazard paid by the mortgagee and interest on the unpaid principal from the date foreclosure proceedings were instituted, or the property was otherwise acquired as provided in section 6 of this Article, to the date of such delivery at the rate of three per centum (3%) per annum, less any amount received on account of interest accrued on such unpaid principal between such dates); and

- (b) A Certificate of Claim in accordance with Section 204 (c) of the Act, which shall become payable, if at all, upon the sale of the property covered by the insured mortgage in accordance with Section 204 (d) of the Act. This certificate shall be for an amount which the Administrator shall determine to be sufficient to pay costs of foreclosure, or other such proceedings, including reasonable attorneys' fees, unpaid interest, cost of repairs to the property made by the mortgagee after default to remedy the waste mentioned in this section and any other amounts due under the mortgage and not covered by the amount of the debentures. Each such Certificate of Claim shall provide that there shall accrue to the holder of such certificate with respect to the face amount of such certificate, an increment at the rate of three per centum (3%) per annum.

8. Evidence of title of the following types will be satisfactory to the Administrator:

- (a) a fee or owner's policy of title insurance, a guaranty or guarantee of title, or a certificate of title, issued by a title company, duly authorized by law and qualified by experience to issue such; or
- (b) an abstract of title prepared by an abstract company or individual engaged in the business of preparing abstracts of title and accompanied by the legal opinion as to the quality of such title signed by an attorney at law experienced in examination of titles; or
- (c) a Torrens or similar title certificate; or
- (d) evidence of title conforming to the standards of a supervising branch of the Government of the United States or of any State or Territory thereof.

Such evidence of title shall be furnished without cost to the Administrator and shall be executed as of a date to include the recording of the deed to the Administrator, and shall show that, according



to the public records, there are not, at such date, any outstanding prior liens, including any past due and unpaid ground rents, general taxes, or special assessments.

If the title and title evidence are such as to be acceptable to prudent lending institutions and leading attorneys generally in the community in which the property is situated, such title and title evidence will be satisfactory to the Administrator and will be considered by him as good and merchantable.

The Administrator will not object to the title by reason of the following matters, provided they are not such as to impair the value of the property for residence purposes, or provided they have been brought to the attention of the insuring office for consideration in fixing the valuation:

- (a) customary easements for public utilities, party walls, driveways, and other purposes; customary building or use restrictions for breach of which there is no reversion and which have not been violated to a material extent;
- (b) such restrictions when coupled with a reversionary clause, provided there has been no violation prior to the date of the deed to the Administrator;
- (c) slight encroachments by adjoining improvements;
- (d) outstanding oil, water, or mineral rights, except those which include the right to sink wells or shafts on the subject property, withdraw the subjacent support, or otherwise impair the value of the property for residence purposes without payment of adequate damages.

9. In the event that the mortgagee fails to comply with the provisions of sections 6 and 7 of this Article, the contract of insurance shall thereupon terminate, and the mortgagor shall be entitled to receive a share of the credit balance of the account of the group to which the mortgage has been assigned, in such amount as the Administrator shall determine to be equitable and not inconsistent with the preservation of the solvency of such account and of the Mutual Mortgage Insurance Fund.

## ARTICLE VII

### ASSIGNMENTS

1. When the insured mortgage is transferred to another approved mortgagee, such transferee shall notify the Administrator of the acquisition of such mortgage within thirty (30) days thereof, and shall thereupon succeed to all the rights and become bound by all the obligations of the transferor under the contract of insurance; but

the transferor shall be released from its obligations under the contract of insurance only upon its giving notice to the Administrator of the transfer of the insured mortgage within thirty (30) days thereof.

Whenever the insured mortgage is transferred to another approved mortgagee for the purposes of collateral only, no notice need be given to the Administrator until such collateral is foreclosed, but the transferor shall remain subject to all the obligations of the contract of insurance.

2. The contract of insurance shall terminate upon the happening of either of the following events:

- (a) the acquisition of the insured mortgage by, or the pledge thereof to, any person, firm, or corporation, public or private, other than an approved mortgagee, whether individually or in trust for another; provided, that this subsection (a) shall not be applicable to a mortgage acquired or held by an approved mortgagee, which is a banking institution or trust company inspected and supervised by some governmental agency, for a trust held or administered by it in a fiduciary capacity, as long as such fiduciary relationship shall remain in effect;
- (b) the disposal by an approved mortgagee of any partial interest in an insured mortgage or group of insured mortgages (whether to another approved mortgagee or otherwise) by means of a declaration of trust, or by a participation or trust certificate, or by any other device; provided that this subsection (b) shall not be applicable to any mortgage so long as it is held in a common trust fund maintained by a bank or trust company (1) exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank or trust company in its capacity as a trustee, executor or administrator; and (2) in conformity with the rules and regulations prevailing from time to time of the Board of Governors of the Federal Reserve System, pertaining to the collective investment of trust funds.

Upon the termination of the insurance under this section, the mortgagor shall be entitled to receive a share of the credit balance of the account of the group to which the insured mortgage has been assigned, in such amount as the Administrator shall determine to be equitable and not inconsistent with the preservation of the solvency of such account and of the Mutual Mortgage Insurance Fund.

**ARTICLE VIII****VESTED RIGHTS**

Neither the mortgagee nor the mortgagor shall have any vested right in the Mutual Mortgage Insurance Fund, and the determination by the Administrator as to the amount payable out of such fund to, or for the benefit of, the mortgagee and mortgagor under any section or sections of these Regulations shall be final and conclusive as to all parties.

**ARTICLE IX****AMENDMENTS**

These Regulations may be amended by the Administrator at any time and from time to time, in whole or in part, but such amendment shall not affect the contract of insurance on any mortgage already insured, or any mortgage or prospective mortgage on which the Administrator has made a commitment to insure.

**ARTICLE X****EFFECTIVE DATE**

These Regulations are effective as to all mortgages on which a commitment to insure is issued to an approved mortgagee on or after October 1, 1937. Wherever a mortgagee so desires, the provisions of any or all of these Regulations shall become a part of any contract of insurance heretofore made, except that subsections (a) and (b) of section 7 of Article VI shall apply only to those mortgages insured on or after May 28, 1935.

Issued at Washington, D. C., September 15, 1937.

**STEWART McDONALD,**  
*Federal Housing Administrator.*

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