FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

J. M. DAIGER
ASSISTANT TO THE ADMINISTRATOR

January 2, 1940

Dear Marriner:

Apropos of our telephone conversation of today, I am sending to you herewith a copy of a memorandum that I have had distributed to FHA division heads in connection with the new program under Title I.

With the memorandum I am sending a copy of Circular No. 3 of the RFC Mortgage Company, to which the memorandum refers, and also a copy of our revised regulations governing small-house loans under Title I.

Both the revised regulations and the purchasing arrangement of the RFC Mortgage Company became effective as of January 1.

Yours sincerely

J. M. Daiger
Assistant to the Administrator

The Honorable Marriner S. Eccles, Chairman
Board of Governors of the Federal Reserve System
Washington, D. C.

FHA Form No. 18
(Revised Jan. 1, 1938)

FEDERAL HOUSING ADMINISTRATION

MEMORANDUM

DATE December 29, 1939

TO: ALL DIVISION HEADS

FROM: J. M. Daiger

SUBJECT: RFC Mortgage Company Purchase of Class 3, Title I Loans

Attached hereto is a copy of Circular No. 3 of the RFC Mortgage Company, which has been sent to the agents of the Company at the addresses listed on pages 8 and 9 of the circular. Contract forms covering the commitment, purchase, and servicing agreement will be sent by the Company to its agents on Tuesday, January 2. Please note particularly the following points:

1. Company will purchase only interest-bearing notes. Notes made on a discount basis will not be eligible under the terms of the Company's Title I contract with lending institutions.

2. To be eligible under the contract loans must bear 4½ per cent interest and provide for a service charge of ½ of 1 per cent per annum.

3. Purchases will be made only from original mortgagees.

4. Notes and mortgages must be on forms prescribed by FHA.

5. All institutions approved by RFC Mortgage Company or FNMA as sellers under Title II will be eligible as sellers under Title I. Except in the case of state and national banks, federal savings and loan associations, and federal, state, and municipal governmental agencies, selling institutions must have a net worth of approximately $100,000 or more.

6. Company will charge a commitment fee of ½ of 1 per cent, which will be retained whether or not the mortgage is delivered.

7. Company will require an amount equal to 10 per cent of original principal amount of each loan purchased to be assigned from seller's insurance reserve under Title I to Company's insurance reserve.

8. Sellers will be required to service loans sold by them. Compensation for servicing will be 1 per cent per annum--that is, seller may retain the service fee of ½ of 1 per cent paid by the mortgagor and in addition will be allowed another ½ of 1 per cent.

9. Purchases and commitments will be limited in general to $12,500 aggregate principal balance of loans to any one mortgagor at any one time. In practice this will apply to loans covering properties not yet sold by an operative builder.

10. Company's Title I contract with lending institutions will cover only Class 3 loans. Loans on leasehold as well as on fee simple property will be eligible. Class 1 and Class 2 loans will not be eligible.

CIRCULAR NO. 3

OF

THE RFC MORTGAGE COMPANY

INFORMATION REGARDING THE PURCHASE BY THE COMPANY OF LOANS MADE BY LENDING INSTITUTIONS PURSUANT TO TITLE I OF THE NATIONAL HOUSING ACT

* * * * * *

DECEMBER 27, 1939

1. DEFINITIONS. As used herein --

a. The term "Administrator" means the Federal Housing Administrator or his duly authorized representative.

b. The term "Act" means the National Housing Act, as amended.

c. The term "Class 3, Title I loan" means an interest-bearing loan made pursuant to Title I of the National Housing Act, as amended, and the Regulations of the Administrator promulgated pursuant thereto for the purpose of financing the construction of a new structure to be used in whole or in part for residential purposes.

d. The term "note" means a note or bond evidencing a Class 3, Title I loan.

e. The term "mortgage" means an instrument in form prescribed by the Administrator for use in connection with Class 3, Title I loans, creating and evidencing a first lien upon real estate owned in fee simple or under a leasehold interest of a lessee under a lease satisfactory to this Company, which meets the requirements set forth in Section 1 of Regulation III of the Regulations effective January 1, 1940, of the Administrator governing the insurance of qualified lending institutions against loss resulting from Class 3 loans made under the provisions of Title I, Section 2 of the National Housing Act as amended.

f. The term "mortgagor" means the original borrower executing the Class 3, Title I note and mortgage, his heirs, administrators and successors in interest.

g. The term "insured lending institution" means an institution, agency or organization to which a contract of insurance has been issued by the Administrator pursuant to Title I of the Act and with respect to which such contract of insurance is still in full force and effect.

h. The term "date of purchase" means the date on which the purchase price of a Class 3, Title I loan is made available to the insured lending institution which is selling such loan to this Company.

i. The term "seller" means an insured lending institution from which the Company purchases or agrees to purchase a Class 3, Title I loan.

j. The term "insurance reserve" means the amount of insurance which an insured lending institution has accumulated with the Administrator pursuant to its contract of insurance for payment of losses resulting from Title I loans made or purchased by it.

2. SELLERS. This Company will purchase and will execute contracts to purchase Class 3, Title I loans from insured lending institutions which originated such loans and which fall within one of the following classifications:

a. State and national banks, federal savings and loan associations, and federal, state and municipal governmental agencies.

b. Institutions which have been approved by the Company or the Federal National Mortgage Association as sellers of mortgages insured under Title II of the National Housing Act.

c. Institutions which establish to the satisfaction of the Company that they have a net worth of approximately One Hundred Thousand Dollars ($100,000) or more.

3. ELIGIBILITY REQUIREMENTS. The Company will purchase such Class 3, Title I loans as meet the following eligibility requirements:

a. The note must be on the form prescribed by the Administrator for use in connection with Class 3, Title I loans in the jurisdiction in which the mortgaged property is situated, must bear interest at the rate of four and one-half percent (4½%) per annum and, except in the instances referred to in paragraph b below, must provide for the payment of equal monthly instalments applicable to principal and interest.

b. In the event fifty-one percent (51%) or more of the income of the mortgagor is derived directly from the sale of agricultural crops, commodities, or livestock produced by him, the note may require the payment of approximately equal semi-annual or annual instalments applicable to principal and interest (in lieu of monthly instalments), provided interest is payable in advance for each instalment period.

c. The note must be secured by a mortgage on the form prescribed by the Administrator for use in connection with Class 3, Title I loans in the jurisdiction in which the mortgaged property is situated, which mortgage shall provide, among other things, for the payment by the mortgagor of the maximum service fee permitted by the applicable regulations of the Administrator.

d. The mortgage must be duly assigned to the Company in form and manner satisfactory to it. The note may be indorsed by the seller without recourse.

e All payments required by the note and payments and deposits required by the mortgage which are due and payable must have been made.

f. The mortgaged property must be located within a radius of one hundred (100) miles from the principal home office of the seller or of a branch office of the seller which, in

the opinion of the Company, is adequately equipped to service the mortgage.

g. Construction of the improvements on the mortgaged property must have commenced on or after January 1, 1940, and such improvements must be fully completed, must be in all respects available for occupancy, and must be undamaged by waste, fire, flood, earthquake, hail or windstorm.

h. An amount equal to ten percent (10%) of the original principal amount of the Class 3, Title I loan must be assigned from the seller's to the Company's insurance reserve.

i. All applicable requirements of Title I of the Act and the Regulations promulgated by the Administrator pursuant thereto with respect to Class 3, Title I loans shall have been met.

The documents and evidence required by the Company to substantiate the foregoing eligibility requirements are enumerated and described in the Company's Title I Contract, copies of which may be obtained from any Agent of the Company.

The Company will not purchase or execute commitments to purchase Class 3, Title I loans if the mortgagor, at the time such loan is offered for purchase, is or will be obligated either directly or indirectly on Class 3, Title I loans owned by the Company or which the Company has committed itself to purchase, having an aggregate principal balance in excess of Twelve Thousand Five Hundred Dollars ($12,500), unless the character of the improvements on properties to be covered by future mortgages securing such loans, the location of such properties, and the extent of the proposed operations of such mortgagor are first approved as satisfactory by the Directors of the Company. In determining such liability, the mortgagor's liability on mortgages covering properties sold to bona fide purchasers who will occupy the property and who have assumed and agreed to pay the mortgage debt will not be included, notwithstanding that the original mortgagor has not been released from liability.

4. MANNER AND TERMS OF PURCHASE. An insured lending institution which meets the requirements of section 2 hereof and which desires to sell to the Company a Class 3, Title I loan which, when delivered, will meet the eligibility requirements enumerated in section 3 hereof, will be required to execute a Contract in quadruplicate on the Company's prescribed form (heretofore and hereinafter referred to as the "Title I Contract"). Such contract shall be accompanied by a certified copy of a resolution of the board of directors of the seller, on form approved by the Company, and by a commitment fee equal to one-half of one percent (½ of 1%) of the unpaid principal amount of the Class 3, Title I note as of the date of execution of the Contract or, if the note has not been executed at such date, an amount equal to one-half percent (½%) of the

original principal amount of the loan which will be evidenced by such note. In the event the Title I Contract is executed by the Company, the commitment fee will be retained by the Company as a charge for making the commitment and defraying the expenses of the Company incident to such commitment and the purchase of the note.

The Title I Contract will incorporate representations of the seller with respect to the eligibility requirements of the loan, will contain an agreement by the seller to service the loan for the Company as hereinafter provided, and will contain an agreement by the Company to purchase the loan within six (6) months of the date of the execution of the Contract by it, provided the documents required by the Company are delivered and the eligibility requirements are met, and to pay to the seller, as compensation for servicing the loan, the amounts hereinafter set forth.

If, subsequent to the date of execution of the Title I Contract and prior to purchase of the note, the amount of the note is increased or other changes have been made with respect to the terms of the note or mortgage, and the seller desires the Company to accept the note and mortgage when delivered, in lieu of the note and mortgage described in the Title I Contract, the seller should advise the Company of such changes and should request the Company to accept the note and/or mortgage in their changed forms. The Company will thereupon require the seller to execute a substitute contract in the event the amount of the loan has been increased or modifications or changes are deemed material by the Company. The seller, however, will not be required to pay an additional commitment fee, provided the new mortgage covers the same property as the mortgage described in the original Contract and is offered by the same seller, unless the amount of the note has been increased. In the latter case, the seller will be required to pay to the Company, at the time the substitute contract is executed, a commitment fee equal to one-half of one percent ($\frac{1}{2}$ of 1%) of the difference between the amount of the note described in the original contract and the amount of the note described in the substitute contract. The commitment of the Company pursuant to the terms of the substitute contract will expire on the same date as the commitment would have expired under the original contract.

In the event a seller is unable to deliver a mortgage prior to the expiration of the commitment period set forth in the Title I Contract relating to such mortgage, and the delay is occasioned through no fault of such seller, the Company may extend the original commitment period for a period or periods not exceeding three (3) months in the aggregate, provided the request for such extension is received prior to the expiration of the commitment period. No extensions in excess of three (3) months will be made by the Company.

5. PURCHASE PRICE. The purchase price of a Class 3, Title I loan shall be as follows:

a. If the loan is purchased subsequent to the first day of the month preceding the date on which the first instalment

payment of principal and interest is due, the purchase price (except in cases referred to in paragraph c below) shall be the unpaid principal amount plus accrued interest to the date of purchase.

b. If the loan is purchased prior to the first day of the month preceding the date on which the first full instalment payment of principal and interest is due, the purchase price (except in cases referred to in paragraph c below) shall be the unpaid principal amount less interest accruing from the date of purchase to the first day of the month preceding the date on which the first full instalment payment of principal and interest is due.

c. If, at the date of purchase of a loan, one or more unmatured instalments have been prepaid, or if the note provides for payment of interest in advance to the due date of the next instalment, the purchase price will be the unpaid principal amount less interest accruing from the date of purchase to the date to which interest has been paid.

6. REPURCHASE LIABILITY OF THE SELLER. The seller of a Class 3, Title I loan will be obligated to repurchase same in the event the representations made in the Title I Contract with respect to such loan are not substantiated to the satisfaction of the Company by the documents and other evidence delivered at date of purchase, and the Company makes demand for such repurchase within three (3) months from the date of purchase and tenders to the seller, the note, mortgage and other documents delivered therewith. If the seller requests the Company to waive this repurchase liability prior to the date of purchase, the Company will examine the documents and other evidence prior to the date of purchase and, if found satisfactory, will waive the repurchase liability of the seller referred to in this paragraph at the time disbursement of the purchase price is made. If the Company is not requested to waive this liability prior to purchase, the purchase price of the note will be available immediately upon delivery of the documents required by the Title I Contract, and the repurchase liability imposed by this paragraph will terminate automatically if demand for repurchase is not made within three (3) months from the date of such disbursement. The Company will thereupon examine as promptly as possible the documents and other evidence delivered with the Title I Contract and notify the seller immediately upon completion of such examination whether or not the Company approves the note and mortgage as complying with its requirements. In the event such approval is given, the repurchase liability of the seller with respect to the matters referred to in this paragraph will terminate as of the date notice of such approval is given.

The seller will also be required to repurchase the note and mortgage in the event the lien of the mortgage is or at any time in the future shall be

subject or inferior to any mechanic's or materialman's lien for labor and materials furnished in the original construction of the improvements on the mortgaged property or in the event the improvements on which the appraisal of the Class 3, Title I loan was based by the original mortgagee do not lie wholly within the boundary and building restriction lines of the real estate covered by the mortgage. The seller's repurchase liability for mechanics' or materialmen's liens shall terminate upon receipt and approval by the Company of either (a) a certificate of a title company or an attorney satisfactory to the Company, certifying that no such mechanic's or materialman's lien appears of record and that the statutory period for filing such lien has expired, or (b) a title insurance policy specifically insuring the Company against loss or damage by reason of any mechanics' and materialmen's liens which have gained or thereafter may gain priority over the lien of the mortgage.

The obligation of the seller to repurchase in the event the improvements do not lie wholly within the boundary and building restriction lines of the real estate covered by the mortgage shall terminate on the date of delivery to the Company of a plat of survey or other evidence satisfactory to the Company, showing that such improvements lie wholly within the boundary lines and building restriction lines of the land covered by the mortgage.

7. SERVICING OF MORTGAGES. The seller of a Class 3, Title I note and mortgage will be required to perform for the Company and any subsequent holder of the mortgage all services and duties incident to the servicing of such mortgage. Among the duties required of the seller will be the duty of maintaining facilities for the collection of all sums payable by the mortgagor, the duty of remitting such collections to the owner of the mortgage within twenty-four (24) hours after receipt thereof, the duty of following up delinquencies, obtaining and furnishing the owner of the mortgage with tax bills, hazard insurance policies, etc., and the duty of inspecting the mortgaged property at least once a year. The seller will not be required to foreclose the mortgage on behalf of the Company or to bear any part of the expense of any foreclosure proceeding.

As compensation for servicing a mortgage, the seller may retain the late charges, if any, and the service fee paid by the mortgagor pursuant to the terms of the mortgage and, in addition thereto, will be allowed an amount equal to one-half percent (½%) per annum on the unpaid principal balance of the mortgage, computed in the same manner as interest for the period during which the seller is servicing such mortgage under the terms of the Title I Contract. The relationship of the Company with the seller as servicing agent may be terminated by the Company on thirty (30) days' written notice to the seller, and thereafter the right of the seller to compensation for servicing the mortgage shall cease.

If a seller, either at the time a Class 3, Title I loan is sold to the Company or thereafter, desires to be relieved of its servicing duties for reasons deemed satisfactory by the Company, the Company ordinarily will interpose no objection, provided another insured lending institution located in

the same territory and satisfactory to the Company agrees to perform such duties for the Company.

8. RELEASE OF MORTGAGORS. In cases in which property covered by a mortgage securing a Class 3, Title I loan owned by the Company is sold and the purchaser assumes and agrees to pay the indebtedness secured by such mortgage, the Company ordinarily will have no objection to releasing the original mortgagor, provided the release is effected in such manner as not to impair the rights of the Company as holder of the mortgage, and provided further:

a. The credit of the purchaser is approved by the Company;

b. All payments and deposits required by the terms of the note and mortgage are current; and

c. The mortgagor agrees in writing that the deposits held by the Company for the payment of taxes, assessments, insurance, etc., may be retained by it for the benefit of the party assuming the indebtedness.

The Company will refuse to release a mortgagor in instances in which it determines that its rights as holder of the mortgage will be impaired by such release.

9. TITLE REQUIREMENTS. Any mortgage delivered to the Company for purchase must be accompanied by appropriate title evidence satisfactory to the Company in the form set forth in the Title I Contract, evidencing that such mortgage constitutes a first lien on the property described therein, subject only to liens for special assessments not in arrears, taxes and ground rents not due and payable, and such other exceptions as are deemed immaterial by the Company, and further evidencing that the mortgagor holds good and merchantable title to such property in fee simple or under a lease satisfactory to the Company which meets the requirements set forth in Section 1 of Regulation III of the Regulations effective January 1, 1940 of the Administrator, governing the insurance of qualified lending institutions against loss resulting from Class 3 loans made under the provisions of Title I, Section 2 of the National Housing Act, as amended.

The Company will not object to the following exceptions in title, provided there is delivered to it a letter or certificate from the Administrator that they do not, in the opinion of the Administrator, impair the value of the property for residence purposes, or provided the Company finds that they do not impair the value of the property for residence purposes:

a. Customary easements for public utilities, party walls, driveways and other purposes, and building or use restrictions which have not been materially violated and for the breach of which there is no right of reversion, or

b. Encroachments by adjoining improvements, or

c. Reservations for outstanding oil, water, mineral leases or other mineral rights, provided such reservations do not include the right to sink wells or shafts on the mortgaged property, withdraw the subjacent support, or otherwise impair the value of the property for residence purposes.

The Company will not purchase mortgages covering real estate, the title to which is subject to a right of reversion, unless such mortgage, at the date it is delivered for purchase, is accompanied by a title policy satisfactory to the Company, specifically insuring the Company against loss or damage by reason of any past or future violation of the covenant or condition upon which the right of reversion may come into being or be exercised, or unless, in the opinion of the Company, such reversion would not affect the lien of the mortgage.

10. AGENTS OF THE COMPANY. All Class 3, Title I loans which are being sold to the Company must be tendered to the Agent of the Company servicing the territory in which the mortgaged property is located. All inquiries concerning the purchase of such loans by the Company should be addressed to such Agent. Title I Contract forms and all other forms prescribed by the Company may be obtained from such Agent.

A list of the cities in which the Agents of the Company are located and their respective addresses are as follows:

ATLANTA, GEORGIA:
Federal Reserve Bank Building,
P. O. Box 1553.

BIRMINGHAM, ALABAMA:
605-13 Watts Building,
Third Ave. & Twentieth Street.

BOSTON, MASSACHUSETTS:
40 Broad Street.

CHARLOTTE, NORTH CAROLINA:
19th Floor,
First National Bank Building.

CHICAGO, ILLINOIS:
Federal Reserve Bank Building,
164 West Jackson Boulevard.

CLEVELAND, OHIO:
4th Floor,
Federal Reserve Bank Building.

DALLAS, TEXAS:
Gulf States Building.

DENVER, COLORADO:
First National Bank Building.

DETROIT, MICHIGAN:
607 Shelby Street.

HELENA, MONTANA:
Power Block.

HOUSTON, TEXAS:
2505 Gulf Building.

JACKSONVILLE, FLORIDA:
Western Union Building.

KANSAS CITY, MISSOURI:
1014 Federal Reserve Bank Bldg.

LITTLE ROCK, ARKANSAS:
American Exchange Trust Company Building,
223 Main Street.

LOS ANGELES, CALIFORNIA:
1017 Pacific National Building,
9th & Hill Streets.

LOUISVILLE, KENTUCKY:
Lincoln Bank Building,
421 W. Market Street.

MINNEAPOLIS, MINNESOTA:
438 McKnight Building.

NASHVILLE, TENNESSEE:
Nashville Trust Company Building.

NEW ORLEANS, LOUISIANA:
Fifth Floor, Union Building,
837 Gravier Street.

NEW YORK, NEW YORK:
Federal Reserve Bank Building,
33 Liberty Street.

OKLAHOMA CITY, OKLAHOMA:
Federal Reserve Branch Bank Building.

OMAHA, NEBRASKA:
507 Medical Arts Bldg.

PHILADELPHIA, PENNSYLVANIA:
Federal Reserve Bank Building.

PORTLAND, OREGON:
Room 444, Pittock Block.

RICHMOND, VIRGINIA:
Richmond Trust Building,
Seventh & Main Streets.

ST. LOUIS, MISSOURI:
Landreth Building,
320 North Fourth Street

SAN ANTONIO, TEXAS:
520-523 Alamo National Building.

SAN FRANCISCO, CALIFORNIA:
514 Federal Reserve Bank Building.

SAN JUAN, PUERTO RICO:
P. O. Box 549.

SEATTLE, WASHINGTON:
1414 Exchange Building.

SPOKANE, WASHINGTON:
Columbia Building.

* * * * *

This Company will not purchase modernization and improvement Title I loans or Class 3, Title I loans evidenced by notes written on a discount basis as distinguished from interest-bearing notes. The policy of this Company with respect to the purchase of Class 3, Title I loans is subject to change without notice.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

December 15, 1939

(JK No. 91)

TO: ALL QUALIFIED LENDING INSTITUTIONS

SUBJECT: NEW TITLE I REGULATIONS EFFECTIVE JANUARY 1, 1940

Attached is a copy of the new Title I Regulations governing the insurance of qualified lending institutions against loss resulting from Title I loans made on and after January 1, 1940.

The new Title I Regulations are in two parts. Part I governs the making of Class 1 (repair and modernization) Loans and Class 2 (new non-residential structure) Loans. Part II governs the making of Class 3 (new residential structures) Loans.

PART I OF THE REGULATIONS: Regulations governing Class 1 or Class 2 loans have not been changed from the regulations heretofore in effect, except that all reference to Class 3 Loans has been eliminated and the maximum maturity of Class 2 (b) (non-residential agricultural structure) Loans has been increased to 15 years and one calendar month if a first mortgage is taken to secure the loan. (See Reg. III.)

The forms to be used in making and reporting Class 1 or Class 2 Loans remain the same.

PART II OF THE REGULATIONS: Because of the widespread interest in the Title I small home ownership plan since its inauguration July 1, 1939, it is felt expedient to establish separate regulations to govern such loans. Therefore, PART II deals exclusively with Class 3 Loans and has no bearing whatsoever on Class 1 or Class 2 Loans.

In certain general aspects the plan of financing small homes under Title I remains the same as heretofore; namely, maximum loan $2500, maximum maturity 15 years and five calendar months, first mortgage or similar security instrument required, and an eligible borrower whose credit is acceptable to the lending institution. However, in a number of other respects the Class 3 Regulations have been modified or changed so that it is important that they be read carefully. It should be noted particularly that;

1. An eligible borrower must be the fee simple owner of unincumbered land, or a long-term lessee of unincumbered land, having an equity of at least 5 percent of the appraised value of the completed property. No second mortgage or junior lien financing is permitted. The borrower must certify on the Credit Statement-Application that the property will be free and clear of all liens other than a Title I mortgage. (See Regulation III.)

2. The structure must conform with the minimum construction requirements and property standards of the Administration, copies of which will be

available in our local Insuring Offices shortly. The proceeds of the Title I loan must be expended in financing the construction of the structure and the appurtenances thereto. The word "appurtenances" refers to landscaping, fencing, garage, sidewalks and drives, septic tanks, cesspools, well, lighting system, heating system, plumbing system, and other similar improvements normally included to make the structure complete. It does not include fixtures or furnishings, such as furniture, stoves, refrigerators, washing machines and other similar appliances. (Regulation IV.)

3. Loans may be evidenced by either an interest bearing note, or a non-interest (discount) note. If the note is interest bearing, Regulation VII is applicable. If the note is non-interest bearing, Regulation VIII will govern.

4. The insured institution must submit to the local Insuring Office in whose area the property is located, an "Application for Property Approval" (FHE 41) prior to the start of construction. No transaction will be eligible if construction starts before the institution receives FHA approval. This application must be accompanied by plans or drawings and specifications of the proposed structure and the institution's check, made payable to the order of the Administration, for $10.00. (Regulation IX.)

5. After receiving the Administrator's approval (on form FHE 42) the institution may proceed in disbursing the proceeds of the loan. Note particularly, that in the absence of written notice from the Administrator during construction, the lending institution may make progress payments, but no proceeds in excess of the 80 per cent of the loan may be disbursed until the institution has received from the local Insuring Office a final inspection report approving the completed property. (Regulation IX.)

6. In the event of default the insured institution may make claim for reimbursement for loss by conveying the property to the Administrator with a good, merchantable title. In lieu of conveying the property to the Administrator, the institution may elect the option of selling the property and make claim on the Administrator for the deficiency, if any. If the sales price is less than 75 per cent of the unpaid balance, the prior approval of the Administrator must be obtained. (Regulation XI.)

7. The insurance charge on Class 3 Loans is one-half of one per cent of the principal amount advanced, payable annually in advance during the life of the loan. For example, if the loan is $2,000 (exclusive of financing charges) the annual insurance charge will be $10.00, payable on each anniversary date. (Regulation XII.) (Annual payment of the insurance charge may also be made on Class 3 Loans made on or after July 1, 1939. Regulation XIV.)

However, if the loan is paid in full or is foreclosed prior to its maturity, no further annual insurance charge need be paid. (Regulation XII.) (Also applicable on Class 3 Loans made on or after July 1, 1939. Regulation XIV.)

8. Class 3 Loans made prior to January 1, 1940, under the Regulations effective February 3, 1938, and July 1, 1939, as amended, may be

extended or renewed for a period up to 15 years from the date of the original loan. (Regulation XIV.) Likewise, it is permissible to substitute an eligible borrower for the original maker of such loans. (Regulation XIV.) (Also permissible on loans made after January 1, 1940 - Regulation IX.)

9. If default occurs on any Class 3 Loan made on or after July 1, 1939, the insured institution may, at its option, sell the property and make claim for any deficiency as provided in Regulation XI of these Regulations. (Regulation XIV.)

The new forms to be used in making and reporting Class 3 Loans are:

FHE 3-NDCS - "Credit Statement-Application" to be executed by the applicant when applying for a Class 3 Loan. (Do not use on Class 1 or Class 2 Loans.)

FHE 41 - - - "Application for Property Approval" to be used by the lending institution in applying to our local Insuring Office for approval of the proposed transaction.

FHE 5-D - - "Report of Each Loan Made" to be used by the lending institution in reporting to the Federal Housing Administrator Class 3 Loans made direct to the borrower. (Do not use on Class 1 or Class 2 Loans.)

FHE 5-E - - -"Report of Each Note Purchased", for use by lending institutions in reporting the purchase of eligible Class 3 notes. (Do not use on Class 1 or Class 2 Loans.)

In addition to the above new forms, special mortgage instruments are being prepared as required by Regulation VII, in connection with interest-bearing loans.

No mortgage instrument forms will be furnished on discount loans, as described in Regulation VIII.

The above new forms are now being printed and as quickly as possible distribution will be made to our local Insuring Offices from whom you may obtain your supply.

These new Regulations are being furnished you at this time in order that you may acquaint yourselves fully with various provisions prior to the effective date, January 1, 1940. Supplementary information will be released from time to time by this office further amplifying the more important provisions of these Regulations. In the meantime, if you have any specific questions, please feel free to call upon us.

Very truly yours,

Jay Keegan

Jay Keegan
Assistant Administrator

29527 12/15/39

P R O P E R T Y

I M P R O V E M E N T

L O A N S

under

T I T L E I

of the

N A T I O N A L H O U S I N G A C T

As Amended Effective July 1, 1939

PART I - Class I and Class 2 loans

PART II - Class 3 loans

R E G U L A T I O N S

Effective January 1, 1940

Issued by
Federal Housing Administration
Washington, D. C.

FHE 1
(Revised 12-15-39)

P R E F A C E

THESE REGULATIONS GOVERN PROPERTY IMPROVEMENT LOANS UNDER TITLE I OF THE NATIONAL HOUSING ACT AS AMENDED JUNE 3, 1939. PART I OF THESE REGULATIONS GOVERNS CLASS 1 AND CLASS 2 LOANS ONLY, i.e., LOANS FOR THE PURPOSE OF FINANCING THE REPAIR, ALTERATION OR IMPROVEMENT OF AN EXISTING STRUCTURE AND LOANS FOR THE PURPOSE OF FINANCING THE CONSTRUCTION OF A NEW STRUCTURE WHICH IS NOT TO BE USED IN WHOLE OR IN PART FOR RESIDENTIAL PURPOSES OR WHICH IS TO BE USED FOR AGRICULTURAL PURPOSES. PART II OF THESE REGULATIONS GOVERNS CLASS 3 LOANS ONLY, i.e., LOANS FOR THE PURPOSE OF FINANCING THE CONSTRUCTION OF NEW STRUCTURES TO BE USED IN WHOLE OR IN PART FOR RESIDENTIAL PURPOSES.

PART I - CLASS 1 AND CLASS 2 LOANS

REGULATIONS
OF THE FEDERAL HOUSING ADMINISTRATOR
GOVERNING CLASS 1 AND CLASS 2 LOANS
UNDER TITLE I OF THE NATIONAL HOUSING ACT

REGULATION I

These Regulations may be cited and referred to as "Regulations effective January 1, 1940, of the Federal Housing Administrator governing the insurance of qualified lending institutions against loss resulting from Class 1 and Class 2 loans made under the provisions of Title I, Section 2, of the National Housing Act, as amended.

REGULATION II

DEFINITIONS

As used in these Regulations --

1. The term "owner" includes, in addition to owners in fee, life tenants and persons holding an equity under a mortgage, trust or contract.
2. The term "note" includes a note, bond, mortgage, or other evidence of indebtedness.
3. The term "payment" includes a deposit to an account or fund.
4. The term "installment payment" includes that deposit to an account or fund which represents the partial repayment of an advance of credit.
5. The term "loan" includes any loan, advance of credit, or purchase of an obligation representing a loan or advance of credit for the purpose of financing eligible repairs, alterations or improvements as authorized by the National Housing Act, as amended, effective July 1, 1939, and by these Regulations.
6. The term "Administrator" means the Federal Housing Administrator.
7. The term "borrower" means one who is an eligible owner or lessee of real property to be improved pursuant to the provisions of the Act and who applies for and receives an advance of credit in reliance upon the provisions of the Act.
8. The term "Act" means the National Housing Act, as amended, effective July 1, 1939.
9. The term "Contract of Insurance" includes all of the provisions of these Regulations and of the applicable provisions of the Act.
10. The term "insured institution" means any bank, trust company, personal finance company, mortgage company, building and loan association, installment lending company or other such financial institution which the Administrator has found to be qualified by experience or facilities and has approved as eligible for credit insurance and to which he has issued a Contract of Insurance effective July 1, 1939.

11. The term "Class 1 loan" means any loan which is for the purpose of financing the repair, alteration or improvement of an existing structure or of the real property in connection therewith, exclusive of the building of new structures.
12. The term "Class 2(a) loan" means any loan which is for the purpose of financing the construction of a new structure which is not to be used in whole or in part either for residential or agricultural purposes.
13. The term "Class 2(b) loan" means any loan which is for the purpose of financing the construction of a new structure for use in whole or in part for agricultural purposes.
14. The term "Class 2 loan" includes both "Class 2(a)" and "Class 2(b)" loans as defined in Sections 12 and 13 of this Regulation.
15. The term "Administration" means Federal Housing Administration.

REGULATION III

ELIGIBLE NOTES

Promissory notes in order to be eligible for insurance:

1. Shall bear the genuine signature, as maker, of an owner of the real property to be improved or of a lessee thereof under a lease expiring not less than six calendar months after the maturity of the loan or advance of credit.
2. Shall be in a form which is valid and enforceable in the jurisdiction in which they are issued.
3. Shall be payable in equal monthly, semi-monthly or weekly installments. The final installment may be slightly more or less than the other installments, subject to such exceptions as may be made by the Administrator. Notes may not provide for a first payment less than six days nor more than two calendar months from the date of the note. However, if fifty-one percent or more of the income of the maker is derived directly from the sale of agricultural crops, commodities, or livestock produced by him, a note may be made payable in installments corresponding to income periods shown on the credit statement. In such cases, the first payment must be made within twelve months of the date of the note and at least one payment must be made during each calendar year thereafter and the proportion of total principal to be paid in later years must not exceed the proportion of total principal payable in earlier years.
4. Shall contain a provision for acceleration of maturity, either automatic or at the option of the holder, in the event of default in the payment of any installment upon the due date thereof.
5. Shall not have a final maturity in excess of three years and thirty-two days from the date thereof in the case of Class 1 and Class 2(a) loans, nor in excess of ten years and thirty-two days in the case of Class 2(b) loans, provided that Class 2(b) loans secured by a first mortgage, first deed of trust, or other security instrument constituting a first lien upon the improved property may have a final maturity not in excess of

fifteen years and one calendar month.

6. May provide for a late charge, to be paid by the maker, not to exceed five cents (5¢) for each $1.00 of each installment more than fifteen days in arrears. In lieu of late charges, notes may provide for interest on past due installments at a rate not in excess of the contract rate in the jurisdiction in which the note is drawn. No late charge or interest on a past due installment may be accrued in excess of $5.00. The borrower must be billed for the penalties collected as such, and evidence of such billing must be in the file if claim is made under the Contract of Insurance.
7. May be in a series provided each is of an equal amount as provided in this Regulation and that each note indicates on its face that it is one of a series signed by the same maker.

REGULATION IV

MAXIMUM LOAN

1. A loan shall not involve a principal amount, exclusive of financing charges to the borrower in excess of $2,500.
2. No loan shall increase the principal amount outstanding at any one time, on all loans made under Title I of the Act effective July 1, 1939 with respect to any one piece of property to an amount in excess of $2,500 exclusive of financing charges to the borrower.
3. One borrower may obtain any number of loans to improve any number of separate pieces of property, subject to the credit requirements contained in Regulation VI.

REGULATION V

MAXIMUM PERMISSIBLE FINANCING CHARGES

1. The maximum permissible financing charge which may be paid by the borrower for interest, discount and fees of all kinds in connection with the transaction may not be in excess of an amount equivalent to $5.00 discount per $100 original face amount of a one-year note, to be paid in equal monthly installments, calculated from the date of the note. Such charges correctly based on tables of calculations issued by the Federal Housing Administrator are deemed to comply with this Regulation.
2. If the insured institution in purchasing a note takes the maximum charge permitted by this Regulation, but employs a "holdback" and does not advance the entire proceeds of the note to the seller, it shall calculate its financing charge on the amount advanced and credit to the account of the seller the difference between the financing charge calculated on the face amount of the note and the financing charge calculated on the amount advanced.
3. The acceptance of a voluntary payment of one or more installments prior

to due date shall not be construed as increasing the maximum permissible financing charge as provided in Section 1 of this Regulation. However, if the entire balance outstanding on the loan is paid in advance the insured institution must make a rebate as follows:

If the maximum permissible financing charge in connection with the transaction is in an amount equivalent to $5.00 discount as provided in Section 1 of this Regulation, the insured institution shall make a rebate at a rate not less than 5% per annum of the amounts so paid in advance of their due dates. If a lesser charge has been taken, the rebate shall be at not less than a proportional rate.

4. An increase in the ratio of the charge to the average amount outstanding on the debt over the maximum provided in this Regulation, which increase results from the first payment falling due less than thirty days after the date of the note as provided in Section 3 of Regulation III, shall not be deemed to be in conflict with this Regulation.

REGULATION VI

CREDITS

1. The insured institution shall obtain a signed and dated Credit Statement-Application from the borrower, on a form approved by the Administrator. The Credit Statement-Application must, in the judgment of the insured institution, clearly show the borrower to be solvent with reasonable ability to pay the obligation and in other respects a reasonable credit risk.
2. A separate Credit Statement-Application is required in connection with each loan made or note purchased.
3. An insured institution acting in good faith may rely upon the statements of the borrower who signs the Credit Statement-Application. The Administrator does not place upon the insured institution the burden of verifying the truth of any such statements. Even if such statements are investigated after the loan is made and found to be false, this will not affect in any way the eligibility of the note for insurance. However, any borrower making false statement or misusing the funds, or any dealer, contractor, or lender who knowingly assists in such a violation, may be committing a Federal offense and will be subject to the penal provisions of the National Housing Act. In all cases where the insured institution discovers a material misstatement in the Credit Statement-Application, or misuse of the funds, it must promptly report such a discovery to the Administrator.
4. A loan shall not be made to a borrower who is delinquent at the time the loan is made, as to either principal or interest, with respect to an obligation owing to or insured by any department or agency of the Federal Government.
5. The prior credit approval of the Administrator shall be obtained on all loans which increase the net amount outstanding, exclusive of financing charges, to any individual borrower to an amount in excess of $2,500 with respect to any obligation incurred pursuant to the provisions of Title I of the National Housing Act since July 1, 1939.

REGULATION VII

ELIGIBLE IMPROVEMENTS

1. A loan must be for the purpose of financing eligible improvements within the United States, its Territories and Possessions, commenced on or after July 1, 1939 and prior to July 1, 1941, in reliance upon the credit facilities afforded by Title I of the National Housing Act as approved June 3, 1939.
2. The proceeds of a loan shall be used only to finance alterations, repairs and improvements upon urban, suburban or rural real property (including the restoration, rehabilitation, rebuilding and replacement of such improvements which have been damaged or destroyed by earthquake, conflagration, tornado, cyclone, flood or other catastrophe).
3. The proceeds of a loan shall not be used to finance the cost of completing an unfinished structure.
4. The proceeds of a Class 1 loan shall be used only to finance the cost of alterations, repairs and improvements upon or in connection with existing structures. The term "existing structure" means a completed building that has or had a distinctive functional use.
5. The proceeds of a Class 2 loan shall not be used to supplement another loan or advance of credit not reported for insurance, the payment of which is secured by a prior lien created in connection with the building of such new structure.
6. The proceeds of a loan shall not be used for the purchase of land.
7. The proceeds of a loan may be used to pay for architectural and engineering services performed in connection with eligible alterations, repairs or improvements financed in accordance with these Regulations.
8. The proceeds of a loan shall not be used for the purpose of refinancing existing obligations not previously reported for insurance pursuant to these Regulations.
9. Where any doubt exists as to the eligibility of a transaction which is to be financed with an insured loan, the facts of the case should be submitted to the Administrator for a decision and ruling.

REGULATION VIII

COMPLETION CERTIFICATE - STATEMENTS

1. An insured institution may not disburse the proceeds of a loan to one other than the borrower or to the borrower and another jointly until it has first:
   (a) Obtained a Completion or Installation Certificate signed by the borrower in the following, or a substantially similar, form:

BORROWER'S COMPLETION CERTIFICATE*

NOTICE TO BORROWER -- Do not sign this Certificate until the work is satisfactorily completed. Dated at_____

_____19__

I (we) the undersigned hereby certify that all articles and materials have been furnished and installed and the work satisfactorily completed on premises at_____ in accordance with my application for a loan dated_____pursuant to the provisions of Title I of the National Housing Act, as amended.

(Signature)_____

_____

*(Insured Institution please note) The wording "Notice to borrower - Do not sign this Certificate until the work is satisfactorily completed", must be in type size at least three times the size of the next largest type appearing on the form of Borrower's Completion Certificate.

   (b) Obtained a statement signed by the dealer, contractor or applicator in the following, or a substantially similar, form:

DEALER/CONTRACTOR/APPLICATOR STATEMENT

_____19__

To the_____(lending institution) of _____.

In consideration of your accepting the note of_____(Name of borrower(s)) for $_____, dated _____, we (I) hereby certify that all articles and materials contracted for have been furnished and installed and the work fully completed, that the signature(s) on the note and Completion Certificate are genuine, that the Completion or Installation Certificate was signed after the articles and materials contracted for had been furnished and installed and the work fully completed.

(Signature)_____
(Name)

_____
(Title)

(c) A written authorization signed by the borrower authorizing payment of the proceeds to the person to whom paid, in the following, or a substantially similar, form:

BORROWER'S AUTHORIZATION FORM

_____19___

I (we) hereby authorize and direct the _____ (financial institution) to pay $_____ of the proceeds of my (our) note dated _____, for $_____ to _____.

(Signature) _____

_____

2. For the purpose of this Regulation, if there are two or more eligible borrowers involved in the transaction only one signature is required on the Completion Certificate or Authorization Form.

REGULATION IX

REFINANCING

1. New obligations to liquidate loans previously reported for insurance pursuant to Title I of the Act effective July 1, 1939 which may or may not include an additional amount advanced will be covered by insurance, provided:
   (a) They meet the requirements of all applicable regulations;
   (b) Are reported to the Administrator on the proper form within 31 days from date of execution;
   (c) Have a maturity not in excess of the maximum permitted under these Regulations from the date of the original obligation;
   (d) If an additional advance is made, the full unearned charge on the original note shall be refunded to the borrower;
   (e) If no additional advance is made, the full unearned charge on the original note shall be refunded to the borrower, except that a handling charge not in excess of $2.00 may be assessed to the borrower;
   (f) They are evidenced by notes which meet with the requirements of Regulation III and other applicable Regulations.
2. An agreement to defer payments on a note previously reported for insurance under these Regulations without rewriting the note will not affect the insurance coverage on the loan provided:
   (a) That such agreement is evidenced in writing;
   (b) That payments shall not be deferred for more than five months from the due date of the last fully-paid installment;
   (c) That such agreement shall not extend the final maturity of the

obligation beyond the maturity date of the obligation as provided by its original terms;

(d) That if the lending institution assesses the borrower for the cost of such deferment, such charge may not be in excess of an equivalent amount of late charges as provided in Section 6, Regulation III.

REGULATION X

REPORT OF LOANS

Loans shall be reported on the proper form to the Federal Housing Administration at Washington, D.C., within 31 days from the date of the note or date upon which it was purchased. Any loan refinanced as provided in Regulation IX shall likewise be reported on the proper form within 31 days from date of refinancing.

REGULATION XI

CLAIMS

1. Claim for reimbursement for loss on a qualified loan shall be made as provided in this Section.
   (a) Claim for reimbursement for loss on a qualified loan may be made to the Administrator after default on any installment, provided demand has been made upon the debtor for the full unpaid balance.
   (b) For the purpose of this Section, any payment received on an account, including payments on a judgment predicated thereon, shall be applied to the earliest unpaid installment, and whenever any installment is six months in arrears claim shall be made within 31 days.
   (c) In the case of yearly installment notes, whenever an installment is twelve months in arrears claim must be made within 31 days thereafter.
   (d) Upon presentation to him of the facts of a particular case within the allowable claim period prescribed in this Section, the Administrator may, in his discretion, extend the time within which claim must be made.
2. Subject to Regulation XII, claim may be made only for loss sustained by the insured institution itself, and may include:
   (a) Net unpaid amount of advance actually made or the actual purchase price of the note, whichever is the lesser;
   (b) Uncollected earned interest (after default interest is not to be claimed at a rate to exceed 4% per annum and will be calculated to the date the claim is approved for payment);
   (c) Uncollected court costs, including fees paid for issuing, serving and filing summons;
   (d) Attorney's fees not exceeding 15% of the amount collected by the attorney on the defaulted note;

(e) Handling fee of $5 for each loan, if judgment is secured, plus 5% of amounts collected subsequent to return of unsatisfied property execution.

(f) An insured institution may not waive its claim against the borrower for attorney fees and subsequently call upon the Administrator for payment of such an item.

3. Claim shall be made on a form provided by the Administrator, filled out completely and executed in duplicate by a duly qualified officer of the insured institution. If the Regulations have been complied with, payment of the loss will be made on audit of the claim and upon proper assignment to the United States of America, of the note upon which the loss occurred, together with any security taken to secure payment thereof. Any security or judgment taken must be assigned, and if any claim has been filed in bankruptcy, insolvency or probate proceedings, such claim shall likewise be assigned to the United States of America.

4. Where a real estate mortgage, deed of trust, or a conditional sales contract, chattel mortgage or any other security device has been used to secure the payment of loans for eligible purposes, the insured institution may not both proceed against such security and also make claim under its Contract of Insurance, but shall elect which method it desires to pursue. If claim is made, such security device shall be assigned, in its entirety, to the United States of America. If the security taken is non-assignable, all rights in such security shall be exhausted by the insured institution or the claim against the Administrator reduced by the full face amount of the security taken before claim will be paid by the Administrator.

5. The following form of assignment properly dated shall be used in assigning a note, judgment, real estate mortgage, deed of trust, conditional sales contract, chattel mortgage or any other security device in event of claim:

"All right, title and interest of the undersigned is hereby assigned (without warranty, except that the note qualifies for insurance) to the United States of America.

_____
Financial Institution

By_____

_____(date) Title_____"

REGULATION XII

INSURANCE RESERVE

1. Subject to the limitation that his total liability which may be outstanding at any one time plus the amount of claims paid in respect of

all insurance heretofore and hereafter granted shall not exceed $100,000,000, the Administrator, in accordance with Regulation XI, will reimburse any insured institution for losses sustained by it up to a total aggregate amount equal to 10% of the total amount advanced by it with respect to Class 1, Class 2, and Class 3 loans during the time its Contract of Insurance is in force, on all eligible obligations previously reported for insurance, taken or purchased by it on and after July 1, 1939, and held by it, or on which it remains liable.

2. If the obligations previously reported for insurance under Contracts of Insurance issued pursuant to the National Housing Act, as amended, effective July 1, 1939, are sold to another insured institution endorsed with or without recourse, the buying and selling institutions may agree, with the prior approval of the Administrator, to transfer all or any part of the insurance reserve standing to the credit of the selling institution, to the purchasing institution. Where the parties agree to transfer an insurance reserve in excess of 10% of the actual purchase price of the obligations involved, or in excess of 10% of the net unpaid original advance on the obligations involved, whichever is the lesser, the entire insurance reserve transferred may be used to pay only those claims arising out of defaults occurring in the transferred obligations. When the obligations so transferred have all been fully paid to the purchasing institution, it shall so notify the Administrator, and any insurance reserve remaining unused shall thereupon revert to the institution from which it was originally transferred.
3. Where the parties agree to transfer an insurance reserve not in excess of 10% of the actual purchase price of the obligations involved, or not in excess of 10% of the net unpaid original advance on the obligations involved, whichever is the lesser, the insurance reserve so transferred will be credited to the general reserve of the purchasing institution in the absence of any agreement to the contrary between the purchasing and selling institutions.
4. The transfer of insurance reserve in cases of merger or consolidation of two or more insured institutions, or of an insured with an uninsured institution, will be provided for by the Administrator in accordance with the facts of the particular case.
5. In all cases involving the transfer of insured obligations, the reports required by Regulation X must be filed and shall indicate the intent of the parties with regard to the transfer of the insurance reserve, and must show that no note to be transferred is delinquent more than one calendar month at the time of such transfer.
6. Where the notes are transferred without recourse, guarantee, or repurchase agreement and the reports do not indicate the intent of the parties, the insurance reserve will be transferred to the general reserve of the purchasing institution on the basis of 10% of the actual purchase price of the obligations involved, or 10% of the net unpaid original advance on the obligations involved, whichever is the lesser.
7. Where the transfer of the obligations is with recourse or under a guarantee or purchase agreement and the required reports do not show the intent of the parties, no insurance reserve will be transferred.

8. The selling price on the transfer of an insured note between insured institutions will not affect the insurance on the note. The calculation of insured loss will be based on the original transaction of the institution first reporting the loan for insurance.
9. Where notes reported for insurance by one insured institution are pledged to another insured institution as security for a loan, an assignment of the pledging institution's insurance reserve may be made with the prior consent of the Administrator provided requests for such consent are accompanied by a signed agreement between the two institutions.
10. Amounts which may be salvaged by the Administrator with respect to a loan in connection with which an institution has been reimbursed under its Contract of Insurance shall not be added to the insurance reserve remaining to the credit of such institution.

REGULATION XIII

INSURANCE CHARGE

1. Insured institutions shall pay to the Administration an insurance charge equal to three-fourths of 1 percentum per annum of the net proceeds of any loan reported for insurance for the entire term of such loan.
2. The insurance charge so calculated shall be paid by check or draft to the order of the Federal Housing Administration, within 25 days after the date the Administrator acknowledges receipt to the insured institution of the report of loan.
3. When the proceeds of any loan are used to liquidate a loan previously reported for insurance under these Regulations, there shall be deducted from the amount of the insurance charge the prorata share of the insurance charge paid on the original obligation.
4. There shall not be refunded any portion of the insurance charge paid by the insured institution with respect to any loan, unless it is subsequently found to have been in whole or in part ineligible for insurance, in which event the insurance charge paid with respect to the ineligible portion of the advance shall be refunded by the Administration to the insured institution.
5. The purchaser of an insured obligation shall not be required to pay the insurance charge provided in this Regulation with respect to the insurance of any obligation transferred under the provisions of Regulation XII with respect to which an insurance charge has previously been paid by the seller, and no refund shall be made to the seller as to any part of the insurance charge previously paid with respect to any obligation so transferred. Any adjustments of the insurance charge paid with respect to the insurance of any obligation transferred shall be made between the purchaser and the seller.
6. The insurance charge paid by the insured institution shall not be charged to the borrower if such charge would cause the total payments made by the borrower to exceed the maximum permissible amount which may be charged to the borrower for interest, discount and all other charges in connection with the transaction.

7. Subject to the other provisions of these Regulations, the insurance granted under Title I of the National Housing Act, as amended, shall be effective with respect to any loan from the date of the report thereof to the Administrator provided that the insurance charge with respect to such loan has been paid as required by this Regulation.

REGULATION XIV

ADMINISTRATIVE REPORTS AND EXAMINATION

The Administrator, in his discretion, may at any time or from time to time call for a report from any institution on the delinquency status of the obligations held by such institution and reported for insurance, or call for such reports as he may deem to be necessary in connection with these Regulations, or he or his authorized representative may inspect the books or accounts of the lending institution as they pertain to the loans reported for insurance.

REGULATION XV

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 insurance with respect to any loan made or obligation purchased prior to the issuance of such amendment.

REGULATION XVI

EFFECTIVE DATE

These Regulations are effective as to all Class 1 and Class 2 loans, advances of credit or purchases made after January 1, 1940 pursuant to the provisions of Title I of the National Housing Act, as amended, and shall have the same force and effect as if included in and made a part of each Contract of Insurance.

Issued at Washington, D. C. December 14, 1939

Stewart McDonald
FEDERAL HOUSING ADMINISTRATOR

PART II

REGULATIONS

OF THE FEDERAL HOUSING ADMINISTRATOR

GOVERNING CLASS 3 LOANS UNDER TITLE I

OF THE NATIONAL HOUSING ACT

REGULATION I

These Regulations may be cited and referred to as "Regulations effective January 1, 1940 of the Federal Housing Administrator governing the insurance of qualified lending institutions against loss resulting from Class 3 loans made under the provisions of Title I, Section 2, of the National Housing Act, as amended.

REGULATION II

DEFINITIONS

As used in these Regulations --

1. The term "Act" means the National Housing Act, as amended, effective July 1, 1939.
2. The term "Administration" means Federal Housing Administration.
3. The term "Administrator" means the Federal Housing Administrator.
4. The term "Contract of Insurance" includes all of the provisions of these Regulations and of the applicable provisions of the Act.
5. The term "insured institution" means any bank, trust company, personal finance company, mortgage company, building and loan association, installment lending company or other such financial institution which the Administrator has found to be qualified by experience or facilities and has approved as eligible for credit insurance and to which he has issued a Contract of Insurance.
6. The terms "loan" and "Class 3 loan" mean any loan which is for the purpose of financing the construction of a new structure to be used in whole or in part for residential purposes.
7. The term "borrower" means one who is an eligible owner or lessee of real property upon which a new structure is to be or has been constructed pursuant to the provisions of the Act and these Regulations and who applies for and receives an advance of credit in reliance upon the provisions of the Act and these Regulations.
8. The term "payment" includes a deposit to an account or fund.
9. The term "installment payment" includes that deposit to an

account or fund which represents the partial repayment of an advance of credit.

10. The term "note" includes a note, bond, mortgage, deed of trust, or other evidence of indebtedness or security instrument.
11. The term "discount loan" means a loan made on a discount, gross charge or non-interest bearing basis.
12. The term "interest bearing loan" means a loan represented by a note payable in monthly installments bearing simple interest on the principal outstanding from time to time.
13. The term "Class 3 structure" means a structure, the construction of which is financed with the proceeds of an eligible Class 3 loan.

REGULATION III

ELIGIBLE BORROWERS

A borrower in order to be eligible for a Class 3 loan:

1. Shall be (1) the fee simple owner of unencumbered land upon which the new structure is to be built or (2) the lessee of such unencumbered land under a lease from the United States Government for a term of at least six months beyond the maturity of the loan or (3) the lessee of such unencumbered land under a lease having a term of at least thirty years to run from the date of the note and providing for annual rental not in excess of 6% of the valuation placed upon the unimproved land by the insured institution and containing a provision which will entitle the lessee to obtain the fee simple title to such land upon payment at any time after one months written notice of a sum not in excess of the amount of such annual rental multiplied by 16-2/3, or (4) the lessee of such unencumbered land under a lease for not less than 99 years which is renewable.
2. Shall establish to the satisfaction of the insured institution by certification on the Credit Statement-Application provided for in Regulation VI that after the mortgage, deed of trust or similar instrument has been recorded, the property will be free and clear of all liens other than such mortgage, deed of trust or similar instrument, except taxes and ground rents not due and payable and special assessments not in arrears, and that in addition to the loan he has an investment in the property in cash, in land, or an interest in the land in an amount equal to 5% of the appraised value of the completed property as determined under Section 1 of Regulation IX.
3. Shall meet with the credit requirements set forth in Regulation VI.

REGULATION IV

ELIGIBLE IMPROVEMENTS

1. A loan must be for the purpose of financing the construction of a

Class 3 structure and appurtenances thereto which conforms with the minimum construction requirements and property standards prescribed by the Administrator and which is approved by the Administrator as to architectural design, physical characteristics and location, and which is within the United States, its Territories and Possessions and which is commenced on or after July 1, 1939 and prior to July 1, 1941, in reliance upon the credit facilities afforded by Title I of the National Housing Act as approved June 3, 1939.

2. The proceeds of a loan shall not be used to finance the cost of completing an unfinished structure, unless the unfinished structure was begun under a Class 3 loan, in which case the total of all loans shall not exceed $2500.
3. The proceeds of a loan shall not be used to supplement another loan or advance of credit not reported for insurance.
4. The proceeds of a loan may be used to pay for architectural and engineering services and builder's profit in connection with the building of new structures financed in accordance with these Regulations.
5. The proceeds of a loan shall not be used for the purpose of refinancing existing obligations not previously made or reported for insurance pursuant to these Regulations.
6. Where any doubt exists as to the eligibility of a transaction which is to be financed with an insured loan, the facts of the case should be submitted to the Administrator for a decision and ruling.

REGULATION V

MAXIMUM LOAN

1. The amount of advance actually made to the borrower on any loan shall not be in excess of $2500.
2. No such loan shall increase the principal amount outstanding at any one time on all loans made under Title I of the National Housing Act effective July 1, 1939, with respect to any one structure or piece of property to an amount in excess of $2500.
3. One borrower may obtain any number of loans to improve any number of separate pieces of property, subject to the credit requirements contained in Regulation VI.

REGULATION VI

CREDITS

1. The insured institution shall obtain a signed and dated Credit Statement-Application from the borrower on a form approved by the Administrator. The Credit Statement-Application must, in the judgment of the insured institution, clearly show the borrower to be solvent with reasonable ability to pay the obligation and in other respects a reasonable credit risk.

2. A separate Credit Statement-Application is required in connection with each loan made or note purchased.
3. An insured institution acting in good faith may rely upon the statements of the borrower who signs the Credit Statement-Application. The Administrator does not place upon the insured institution the burden of verifying the truth of any such statements. Even if such statements are investigated after the loan is made and found to be false, this will not affect in any way the eligibility of the note for insurance. However, any borrower making such false statement or misusing the funds, or any dealer, contractor, or lender who knowingly assists in such a violation, may be committing a Federal offense and will be subject to the penal provisions of the National Housing Act. In all cases where the insured institution discovers a material misstatement in the Credit Statement-Application or misuse of the funds, it must promptly report such a discovery to the Administrator.
4. A loan shall not be made if the records of the lender or the Credit Statement-Application indicates that the borrower is delinquent as to either principal or interest, with respect to an obligation owing to or insured by any Department or agency of the Federal Government.

REGULATION VII

ELIGIBLE INTEREST BEARING LOANS

1. In order to be eligible for insurance an interest bearing loan shall be secured by collateral security in the form of a duly recorded first mortgage, first deed of trust or similar instrument which constitutes a first lien upon a fee simple or leasehold interest in the land and buildings, appurtenances and improvements thereon and which:
   (a) Is in a form approved by the Administrator for use in the jurisdiction in which the property covered by the mortgage, deed of trust, or similar instrument is situated and involves a principal amount not in excess of $2500.
   (b) Shall provide for interest at such rate as may be agreed upon between the borrower and the insured institution but in no case shall such interest be in excess of 4½% per annum on the outstanding principal. Interest and principal shall be payable in monthly installments (or other periodic installments as provided in subsection (k) of this Section. In the event interest is payable in installments corresponding to the income periods shown on the Credit Statement-Application such interest payments may be required in advance for each such installment period.) The mortgage may provide that the borrower shall pay in addition to interest an annual service charge at such rate as may be agreed upon between the borrower and the insured institution but in no case shall such service charge exceed one half of one per cent per annum on the outstanding balances. Any such service charge shall be payable on the installment payment dates.
   (c) May provide for payments by the borrower to the insured institution

on each installment payment date of an amount equal to the annual insurance charge payable by the insured institution to the Administrator, divided by the number of installment payment dates to elapse prior to the date such charge is due and payable to the Administrator.

(d) Shall provide for such equal payments by the borrower to the insured institution on each installment payment date 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 date on which same become delinquent. The note shall further provide that such payments shall be held by the lending institution 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 borrower. The note shall also make provision for adjustments in case the estimated amount of such taxes, assessments, and insurance premiums should prove to be more or less than the actual amount thereof so paid by the insured institution.

(e) The note shall contain a privilege of prepayment in full or in amounts equal to one or more installment payments, on the principal that are next due on the note at any interest payment date upon thirty days prior notice and without premium or penalty.

(f) Shall provide that all installment payments to be made by the borrower to the insured institution shall be added together and the aggregate amount thereof shall be applied to the following items in the order set forth.

(1) Insurance charges due the Federal Housing Administrator.
(2) Service charge, if any.
(3) Ground rents, taxes, special assessments, and fire and other hazard insurance premiums.
(4) Interest on the loan.
(5) Amortization of the principal of the loan.

(g) May provide for a late charge to be paid by the borrower, not to exceed two cents (2¢) for each dollar for each installment payment more than fifteen days in arrears. No late charge may be accrued in excess of $5.00. The borrower must be billed for the penalties collected as such, and evidence of such billing must be in the file if claim is made under the Contract of Insurance.

(h) Shall contain a provision for acceleration of maturity at the option of the holder in the event of default.

(i) Shall not have a final maturity in excess of fifteen years and five calendar months.

(j) Shall provide for not more than one hundred and eighty monthly payments which shall fall due on the first day of a month and the first such payment shall fall due not less than six days nor more than six calendar months from the date of the note, except as provided in subsection (k) of this Section.

(k) In instances in which the Credit Statement-Application of the borrower indicates that not less than 51% of the income of the

borrower is derived directly from the sale of agricultural crops, commodities or livestock produced by him, the note may provide, in lieu of monthly installments, for substantially equal installment payments corresponding to the income periods shown on the Credit Statement-Application, provided, however, that the first payment must be within twelve months of the date of the note and that at least one payment must be made during each calendar year thereafter.

2. The borrower must pay to the insured institution, upon the execution of the note, a sum that will be sufficient to pay premiums on fire and other insurance required by the insured institution pursuant to the terms of the note, and ground rents, if any, and estimated taxes, special assessments, drainage and irrigation charges applicable to the period beginning on the date to which such ground rents, taxes, assessments, and charges were last paid and ending on the date of the first periodic payment under the note. The borrower, at such time, may also be required to pay a sum equal to the first annual insurance charge plus an amount equal to one-twelfth (1/12) of the annual insurance charge multiplied by the number of months to elapse from the date of the closing of the loan to the date of the first periodic payment, and if the note provides for payment of interest in advance, interest to the due date of the first periodic payment thereunder. The insured institution may charge the borrower the $10.00 paid to the Administration for examining the loan and an initial service charge in an amount sufficient to reimburse the insured institution for the cost of closing the transaction, including appraisal fees but in no case shall the amount of such service charge be in excess of 1% of the original principal amount of the loan.
3. In addition to the charges hereinbefore mentioned the insured institution may collect from the borrower only recording fees and such costs of title search as are customary in the community.

REGULATION VIII

ELIGIBLE "DISCOUNT" LOANS

1. A "discount" loan shall be secured by collateral security in the form of a duly recorded first mortgage, first deed of trust or other similar instrument which constitutes a first lien upon a fee simple or leasehold interest in the land and buildings, appurtenances and improvements thereon and:
   (a) Shall not be in excess of $2500 exclusive of financing charges to the borrower.
   (b) Shall not have a maturity in excess of fifteen years and five calendar months.
   (c) May provide for a maximum financing charge to be paid by the borrower for interest, discount and fees of all kinds other than those referred to in subsection (d) of this Section and Sections 2 and 3 of this Regulation in connection with the transaction

not in excess of an amount equivalent to $3.50 discount per $100 original face amount of a one year note to be paid in equal monthly installments calculated from the date of the note. Such charges correctly based on tables of calculations issued by the Federal Housing Administrator are deemed to comply with this Regulation. The acceptance of a voluntary payment of one or more installments prior to due date shall not be construed as increasing the maximum permissible financing charge as provided in this subsection. However, if the entire loan is paid in advance, the insured institution shall make a rebate of the entire unearned financing charge.

(d) May provide for such equal monthly payments by the borrower to the insured institution 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 date on which same becomes delinquent. In such event the note shall further provide that such payments shall be held by the insured institution 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 borrower and shall 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 borrower. If the income of the borrower is derived from the sale of agricultural crops, commodities, or livestock, payments may be seasonal as provided in Subsection (g) of this Section.

(e) May provide for a late charge, to be paid by the maker, not to exceed two cents (2¢) for each dollar of each installment more than fifteen days in arrears. In lieu of late charges, notes may provide for interest on past due installments at a rate not in excess of the contract rate in the jurisdiction in which the note is drawn. No late charge or interest on a past due installment may be accrued in excess of $5.00. The borrower must be billed for the penalties collected as such, and evidence of such billing must be in the file if claim is made under the Contract of Insurance.

(f) May not provide for a first payment less than six days nor more than six calendar months from the date of the note except as provided in Subsection (g) of this Section and in no case shall provide for more than one hundred and eighty payments.

(g) May be made payable in installments corresponding to the income periods shown on the Credit Statement-Application if fifty-one percent or more of the income of the borrower is derived directly from the sale of agricultural crops, commodities, or livestock produced by him. In such cases, the first payment must be made within twelve months of the date of the note and at least one payment must be made during each calendar year thereafter and the proportion of total principal to be paid in later years must not exceed the proportion of total principal payable in earlier years.

(h) Shall contain a provision for acceleration of maturity, either automatic or at the option of the holder, in the event of default in the payment of any installment.

2. In addition to the maximum permissible financing charge which may be paid by the borrower in connection with a Class 3 loan as provided in Section 3 of this Regulation, the following allowable costs or expenses if incurred by the insured institution in connection with the transaction may be collected from the borrower, provided such costs or expenses are not paid from the net proceeds advanced to the borrower.
   (a) Recording fees.
   (b) Title Examination fees.
   (c) Fire and other hazard Insurance Premiums.
   (d) The $10.00 paid to the Administration for examining the loan.
   (e) An initial service charge in an amount sufficient to reimburse the insured institution for the cost of closing the transaction provided that no such service charge shall exceed one per centum of the original net proceeds of the loan.
3. The borrower may be required to pay to the insured institution upon the closing of the loan 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 loan to be held by the insured institution 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 borrower.

REGULATION IX

LOAN PROCEDURE

1. Prior to the start of construction and to the disbursement of any portion of the proceeds of the loan, the insured institution shall make an estimate of the value of the property assuming completion of the proposed improvements and shall certify to the local insuring office the amount of such appraisal and that the requirements of Section 2 of Regulation III will be complied with. However, if the insured institution is an approved mortgagee under the provisions of Title II of the Act and requests the Administrator to determine the eligibility of the property for insurance of a mortgage loan under the provisions of Section 203 of Title II of the Act, it may accept the value estimate of the Administrator as its own in the event it subsequently decides to make a loan under the provisions of these Regulations.
2. Prior to the start of construction and to the disbursement of any portion of the proceeds of the loan, the insured institution shall submit to the Administrator an Application for Property Approval on a form prescribed by the Administrator. Such application shall be accompanied by the certificate provided for in Section 1 of this Regulation, the plans or drawings and specifications, and the insured institution's check made payable to the Federal Housing Administration in the sum of $10.00.

3. After obtaining the approval of the application by the Administrator and prior to disbursing the proceeds of the loan or any portion thereof, the institution shall satisfy itself that the value of the work done and materials on the site at the time of any progress payment is equal to at least 110% of such payment, plus all such progress payments theretofore made. The insured institution shall not make a disbursement or a progress payment which would increase the total amount disbursed to a sum in excess of 80 per centum of the proceeds of the loan until it has been notified that the final inspection of the structure by the Administration has been made and the work approved. No disbursement of any portion of the proceeds shall be made subsequent to receipt of written notice from the Administrator by the insured institution to the effect that the structure has not been constructed in accordance with the plans and specifications and conditions as approved by the Administrator.
4. The approval of the Administrator provided for in this Regulation shall not relieve the insured institution from compliance with any Regulation.
5. In the event that property covered by a loan is sold to an eligible borrower who assumes and agrees to pay the debt and whose credit is satisfactory to the insured institution, the seller may be released by the insured institution from his obligation upon notice thereof to the Administrator.
6. Loans shall be reported on the proper form to the Federal Housing Administration at Washington, D. C., within thirty-one days of the first disbursement of any of the proceeds of the loan or the date upon which it was purchased. Any loan refinanced in accordance with Regulation X shall be reported on the proper form within thirty-one days from the date of refinancing.

REGULATION X

REFINANCING

New obligations to liquidate loans previously reported for insurance pursuant to Title I of the Act effective July 1, 1939 which may or may not include an additional amount advanced will be covered by insurance, provided that:

(a) They meet the requirements of all applicable regulations;
(b) Are reported to the Administrator on the proper form within 31 days from date of execution;
(c) Have a maturity not in excess of the maximum permitted under these Regulations from the date of the original obligation;
(d) If an additional advance is made, the full unearned charge on the original note shall be refunded to the borrower;
(e) If no additional advance is made, the full unearned charge on the original note shall be refunded to the borrower, except that a handling charge not in excess of $2.00 may be assessed to the borrower.

REGULATION XI

CLAIMS

Claim for reimbursement for loss on a qualified loan shall be made as provided in this Regulation.

1. If the borrower 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 note shall be considered in default and at any time within one year from the date of default the insured institution, at its election, shall either --
   (a) 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 insured institution shall commence such foreclosure within sixty (60) days after the expiration of the time during which such foreclosure is prohibited by such laws.
   (c) Nothing herein contained shall be construed so as to prevent the lending institution, with the written consent of the Administrator, from taking action at a later date than herein specified.
2. 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.
3. If after default and prior to the completion of foreclosure proceedings, the borrower shall pay to the insured institution all monthly payments in default and such expenses as the insured institution shall have incurred in connection with the foreclosure proceedings, no claim for reimbursement under the Contract of Insurance can be made and the insurance shall continue as if such default had not occurred.
4. If the default is not cured as aforesaid, and if the insured institution has otherwise complied with the provisions of this Regulation, it may 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 the expiration of the period given the insured institution to sell under Section 7 of this Regulation, tender to the Administrator possession of, and a deed containing a covenant which warrants against the acts of the insured institution and all claiming by, through, or under it, conveying good merchantable title to such property undamaged by fire, earthquake, flood, or tornado. The Administrator shall promptly accept conveyance of such property and, subject to Regulation XIV, make payment of loss sustained by the insured institution as follows:
   (a) The net unpaid balance of advance actually made;
   (b) Uncollected earned interest (after default interest is not to be

claimed at a rate to exceed 4% per annum for the first six months nor thereafter to exceed 3% per annum and will be calculated to the date the claim is approved for payment);

(c) Actual expenses incurred by the insured institution and approved by the Administrator in connection with the foreclosure proceedings or the acquisition of the mortgaged property otherwise, and the conveyance thereof to the Administrator up to but not to exceed $75.00;

(d) The amount of all payments which have been made by the insured institution for taxes, ground rents, special assessments, and water rates which are liens prior to the mortgage, and fire and hazard insurance premiums.

Any amount received by the insured institution from any source relating to the property on account of rent or other income, after deducting reasonable expenses incurred in handling the property shall be deducted from the sum of the foregoing.

5. 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 a 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 recordation 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, except for ground rents and taxes not due and payable and special assessments not in arrears. 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.

6. 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:

(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, which do not impair the value of the property for residence purposes, or which are customarily waived by prudent lending institutions and leading attorneys generally in the community.

7. In lieu of the procedure provided for in Sections 4 and 5 of this Regulation the insured institution, after acquiring title to the property as provided in this Regulation, may at its option, sell the same in the open market to a bona fide third party at any time within six months from the date of such acquisition of the property, or within such further time as may be approved by the Administrator; provided, that such property may not, without the prior approval of the Administrator, be sold for a price less than 75 percent of the net unpaid balance of the advance actually made. The net amount received at such sale, whether in cash or deferred payments, shall be credited on the obligation and claim may be filed with the Administrator for the balance. Payment of loss sustained by the insured institution shall be made as follows:

(a) The net unpaid balance of the advance actually made. In calculating the net unpaid amount, the net sale price must be included as a credit.

(b) Uncollected earned interest (after default and prior to acquisition of the property by the insured institution interest is not to be claimed at a rate to exceed 4% per annum for the first six months nor thereafter to exceed 3% per annum. Subsequent to the acquisition of the property by the insured institution interest shall not be claimed at a rate to exceed 3% per annum.)

(c) Actual expenses incurred by the lending institution and approved by the Administrator in connection with foreclosure proceedings or acquisition of the property otherwise up to but not exceeding $75.00.

(d) The amount of all payments which have been made by the insured institution for taxes, ground rents, special assessments, water rates which are liens prior to the mortgage, fire and hazard insurance premiums and cost of maintenance and repair of the property (claim for cost of maintenance and repair shall not exceed 10% of the net unpaid balance of the advance actually made unless prior approval of the Administrator has been obtained.)

Any amount received by the insured institution from any source relating to the property on account of rent or other income shall be deducted from the sum of the items referred to in this Section.

REGULATION XII

INSURANCE CHARGE

1. Insured institutions shall pay to the Administration an insurance charge equal to one-half of one per centum per annum of the net proceeds of any discount loans reported for insurance and an annual insurance charge equal to one-half of one per centum of the original principal amount of any interest-bearing loans reported for insurance.

2. The first annual insurance charge so calculated shall be paid by check or draft to the order of the Federal Housing Administration within 25 days after the date the Administration acknowledges receipt to the insured institution of the report of any such loan and the next and each succeeding annual insurance charge shall be paid in advance upon the anniversary of the first day of the month following the date of the note until the loan is paid in full or claim is filed with the Administrator under the Contract of Insurance.
3. In the event the loan is paid in full prior to maturity or is foreclosed or the possession of and title to the property is otherwise acquired by the insured institution, the insured institution shall within 30 days thereafter notify the Administration of the date of prepayment, foreclosure or acquisition, after which its obligation to pay future annual insurance charges in connection therewith shall cease but it shall not be entitled to a refund of any portion of an annual insurance charge previously paid or a reduction in the amount of any insurance charge which fell due prior to such prepayment, foreclosure or acquisition of the property.
4. When the proceeds of any loan are used to liquidate a loan previously reported for insurance under these Regulations, there shall be deducted from the amount of the insurance charge payable the first year the prorata share of the annual insurance charge paid on the original obligation.
5. The purchaser of an obligation previously reported for insurance shall pay each succeeding annual insurance charge as provided in Section 2 of this Regulation. Any adjustment of the insurance charge paid in advance by the seller shall be made between the purchaser and the seller.
6. The insurance charge paid by the insured institution shall not be charged to the borrower if such charge would cause the total payments made by the borrower to exceed the maximum permissible amount which may be charged to the borrower for interest, discount and all other charges in connection with the transaction, except as provided in Regulations VII and VIII.
7. Subject to the other provisions of these Regulations, the insurance granted under Title I of the National Housing Act, as amended, shall be effective with respect to any loan from the date of the report thereof to the Administrator provided that the insurance charge with respect to such loan is paid as required by this Regulation.

REGULATION XIII

INSURANCE RESERVE

1. Subject to the limitation that his total liability which may be outstanding at any one time plus the amount of claims paid in respect of all insurance heretofore and hereafter granted shall not exceed

$100,000,000, the Administrator, in accordance with Regulation XI, will reimburse any insured institution for losses sustained by it up to a total aggregate amount equal to 10% of the total amount advanced with respect to Class 1, Class 2 and Class 3 loans during the time its Contract of Insurance is in force, on all eligible obligations previously reported for insurance, taken or purchased by it on and after July 1, 1939, and held by it, or on which it remains liable.

2. If obligations previously reported for insurance under Contracts of Insurance issued pursuant to the National Housing Act, as amended, effective July 1, 1939, are sold to another insured institution endorsed with or without recourse, the buying and selling institution may agree to transfer all or any part of the insurance reserve standing to the credit of the selling institution to the purchasing institution with the prior approval of the Administrator under such terms and conditions as he may prescribe.
3. The transfer of insurance reserve in cases of merger or consolidation of two or more insured institutions, or of an insured with an uninsured institution, will be provided for by the Administrator in accordance with the facts of the particular case.
4. In all cases involving the transfer of insured obligations, the reports required by Section 6, Regulation IX must be filed and shall indicate the intent of the parties with regard to the transfer of the insurance reserve, and must show that no note to be transferred is delinquent more than one calendar month at the time of such transfer.
5. Where the notes are transferred without recourse, guarantee, or repurchase agreement and the reports do not indicate the intent of the parties, the insurance reserve will be transferred to the general reserve of the purchasing institution on the basis of 10% of the actual purchase price of the obligations involved, or 10% of the net unpaid original advance on the obligations involved, whichever is the lesser.
6. Where the transfer of the obligation is with recourse or under a guarantee or purchase agreement and the required reports do not show the intent of the parties, no insurance reserve will be transferred.
7. The selling price on the transfer of an insured note between insured institutions will not affect the insurance on the note. The calculation of insured loss will be based on the original transaction of the institution first reporting the loan for insurance.
8. Where notes reported for insurance by one insured institution are pledged to another insured institution as security for a loan, an assignment of the pledging institution's insurance reserve may be made with the prior consent of the Administrator provided requests for such consent are accompanied by a signed agreement between the two institutions.
9. Amounts which may be salvaged by the Administrator with respect to a loan in connection with which an institution has been reimbursed under its Contract of Insurance shall not be added to the insurance reserve remaining to the credit of such institution.

REGULATION XIV

PRIVILEGES EXTENDED TO LOANS REPORTED FOR INSURANCE UNDER PREVIOUS REGULATIONS

1. At its option an insured institution may extend or renew, for a period up to fifteen years from its original date, any Class 3 loan made prior to the effective date of these Regulations and heretofore or hereafter reported for insurance under the Acts of February 3, 1938 or June 3, 1939 amending the National Housing Act, and the unpaid balance of any such loan shall be so amortized as to be fully paid at the end of said fifteen year term; provided that all such loans are secured by collateral security in the form of a duly recorded first mortgage, first deed of trust or similar instrument which constitutes a first lien upon a fee simple or leasehold interest in the land and buildings, appurtenances and improvements thereon.
2. In the event the property covered by a loan made prior to the effective date of these Regulations and heretofore or hereafter reported for insurance under the Acts of February 3, 1938, or June 3, 1939 is sold to an eligible borrower who assumes and agrees to pay the debt and whose credit is satisfactory to the insured institution, the seller may be released by the insured institution from his obligation upon notice thereof to the Administrator; provided that all such loans are secured by collateral security in the form of a duly recorded first mortgage, first deed of trust or similar instrument which constitutes a first lien upon a fee simple or leasehold interest in the land and building, appurtenances and improvements thereon.
3. In the case of any loan made on or after July 1, 1939, the insured institution at its option may acquire title to the property and dispose of such property as provided in Regulation XI, whereupon such loan shall be subject to all the applicable provisions of these Regulations.
4. In the event any loan made on or after July 1, 1939, is paid in full or the property is acquired by the lending institution as set forth in Regulation XI or in the event the insurance with respect to the loan is terminated, no additional insurance charge with respect to such loans shall be payable.
5. In the case of any loan made on or after July 1, 1939, the insurance charge may be paid by check or draft to the order of the Federal Housing Administration annually in advance as provided in Section 2 of Regulation XII.

REGULATION XV

ADMINISTRATIVE REPORTS AND EXAMINATION

The Administrator, in his discretion, may at any time or from time to time call for a report from any institution on the delinquency status of the obligations held by such institution and reported for insurance, or call for such

reports as he may deem to be necessary in connection with these Regulations, or he or his authorized representative may inspect the books or accounts of the lending institution as they pertain to the loans reported for insurance.

REGULATION XVI

AMENDMENTS

The foregoing 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 effect the insurance with respect to any loan made or obligation purchased prior to the issuance of such amendment.

REGULATION XVII

EFFECTIVE DATE

The foregoing Regulations are effective as to all Class 3 loans, advances of credit or purchases made on or after January 1, 1940 pursuant to the provisions of Title I of the National Housing Act, as amended, and shall have the same force and effect as if included in and made a part of each Contract of Insurance.

Issued at Washington, D. C. December 14, 1939.

Stewart McDonald
Federal Housing Administrator

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