

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, February 14, 1951

REAL ESTATE CREDIT
REGULATION X—AS AMENDED EFFECTIVE FEBRUARY 15, 1951

To the Addressee:

There is reproduced on the following pages the text of a statement issued by the Board of Governors of the Federal Reserve System regarding Regulation X—Real Estate Credit—as amended effective February 15, 1951.

Among other changes made by the amendment, the regulation has been broadened to include credits extended with respect to certain non-residential structures, including office buildings, warehouses, stores, banks, hotels, motels, motor courts, garages, automobile service stations, restaurants, and clubs.

A copy of the regulation as amended is enclosed. This bank and its branches at El Paso, Houston, and San Antonio, will be glad to furnish any further information which may be desired concerning the regulation.

Yours very truly,

R. R. GILBERT

President

STATEMENT FOR THE PRESS
by the
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

For Release in Morning Newspapers
Thursday, February 15, 1951.

The Board of Governors has amended Regulation X, covering real estate credit, to include certain nonresidential properties. The new amendments, which make no substantial change in the regulations formerly issued covering residential credit, become effective February 15, 1951.

The amended regulation has been broadened to include, in general, new construction of office buildings, warehouses, stores (including sales display and service facilities, whether wholesale or retail), banks, hotels, motels, motor courts, garages, automobile service stations, restaurants, theatres, clubs, and other new structures used for nonresidential purposes.

The revised credit restrictions limit maximum loans on such structures to 50 per cent of the value of the property, "value" being defined as the *bona fide* sale price in the case of a sale. In respect to any other extension of credit, "value" will be the appraised value as determined in good faith by the lender extending credit. Maturities are limited to 25 years, and amortization is required.

Major additions and improvements to a nonresidential property, including any enlargement, reconstruction, alteration, or repair of an existing structure, are also covered by the amended regulation, if the cost of the major addition or improvement exceeds 15 per cent of the appraised value of the nonresidential structure.

As in the case of new nonresidential buildings, not more than 50 per cent of the cost of the major addition or improvement subject to the regulation may be borrowed.

Regulation X was first issued on October 12, 1950, when credit on one- and two-family homes was restricted. On January 12, 1951, an amendment was issued placing limitations on credit for the construction of three- and four-family houses, and for multi-unit residences.

Special provision has not been made in the regulation to facilitate new construction in areas affected by the development of the defense program. However, an amendment to the regulation will be issued as soon as practicable under which different terms may be permitted with respect to projects or structures, in limited areas, which may be designated by the appropriate authorities as necessary in the defense program.

The extension of the regulation is for the purpose of adding further restraints to inflation by limiting the credit available for the financing of nonresidential construction, and to bring about a decrease in building to provide materials and labor for the defense program.

Most new nonresidential construction credit extended after February 15, 1951, will be subject to the regulation. However, credits with respect to certain classes of construction are exempt from the credit restraints, including credits for schools, hospitals, churches, public utilities and property constructed for use by the government or any political subdivision.

In addition, new construction for use by manufacturing or mining businesses, or for various farm uses, are exempt if more than 80 per cent of the floor space of the new building is employed

- (1) In processing materials, goods, or articles into finished or partly finished manufactured products, or
- (2) In mining or otherwise extracting raw materials, or
- (3) On farm property, in the production, shelter, or storage incidental thereto, of crops, livestock or other agricultural commodities.

For all types of credit subject to the regulation, the lender, in determining the amount that may be loaned, must take into account all credit previously extended in connection with the property and still outstanding, as well as the amount of additional credit being extended. As in the previous regulation, supplementary borrowing, as well as mortgage loans, continues to be within the scope of the regulation.

Construction loans made to subcontractors and other persons, except the owners of nonresidential property, are exempt when they have maturities not exceeding 24 months. Construction loans to owners of proposed nonresidential construction must conform to the regulation except that amortization is not required for 24 months under certain conditions.

Credit extended pursuant to firm written agreements made prior to the effective date of the new amendments is exempt from the regulation.

In addition to provisions relating to nonresidential properties, a number of other amendments have been made for the purposes of clarification.

Although the regulation provides that a person must be registered to engage in the business of extending real estate construction credit, all such persons will automatically be deemed to be registered and no action on their part to register is now required. However, the regulation provides that the Board may later, by public announcement, require registration statements to be filed by persons affected.

During the formulation of the new amendments to Regulation X, consultations and meetings were held with representatives of the various business groups affected. Such groups included manufacturers of and dealers in building supplies and materials, labor organizations, banks and trust companies, savings banks, savings and loan associations, mortgage companies, insurance companies, builders, real estate dealers, and others interested in construction and mortgage finance.

Inquiries in regard to Regulation X should be directed to one of the twelve Federal Reserve Banks and their twenty-four branches through which the regulation is administered.

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

REAL ESTATE CREDIT



REGULATION X

As amended effective February 15, 1951



INQUIRIES REGARDING THIS REGULATION

**Any inquiry relating to this regulation should be addressed
to the Federal Reserve Bank or Federal
Reserve branch bank of the district
in which the inquiry arises.**

FOREWORD

This regulation applies to real estate construction credit with respect to property on which a new residence, multi-unit residence, or non-residential structure, or a major addition or major improvement to an existing residence, multi-unit residence, or nonresidential structure is begun after 12 o'clock meridian, August 3, 1950. The regulation applies, in general, to banks, savings and loan associations, insurance companies, mortgage companies, loan companies, finance companies, real estate companies, or other institutions or individuals who are engaged in the business of extending real estate credit with respect to residences, residential property, multi-unit residential property, or nonresidential property. In order to determine whether a particular institution or individual or a particular transaction is subject to this regulation, reference should be made to the provisions of the regulation itself.

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REGULATION X

As amended effective February 15, 1951

REAL ESTATE CREDIT

SECTION 1. SCOPE AND APPLICATION OF REGULATION

This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the "Board"), with the concurrence of the Housing and Home Finance Administrator with respect to provisions relating to real estate construction credit involving residential property and multi-unit residential property, under authority of the "Defense Production Act of 1950," approved September 8, 1950 (hereinafter called the "Act"), and Executive Order No. 10161, dated September 9, 1950.

This regulation applies to any person who is engaged in the business of extending real estate credit with respect to residences, residential property, multi-unit residential property, or nonresidential property, including any person who acts as agent in arranging for such credit. For the purposes of this regulation, a person shall be deemed to be engaged in the business of extending such real estate credit if, in his own right or as agent or fiduciary, he either (1) extends or has extended such real estate credit more than three different times during the current calendar year or during the preceding calendar year, or (2) extends or has extended such real estate credit in an amount or amounts aggregating more than \$50,000 during the current calendar year or during the preceding calendar year. For the purposes of this section, such real estate credit shall be deemed to include credit with respect to any residence, residential property, multi-unit residential property, or nonresidential property, whether or not there is any new construction thereon, and whether or not such credit is extended, insured, or guaranteed by the Federal Housing Administration, the Veterans' Administration, or any other department, independent establishment or agency of the United States, and whether or not such credit is exempt from this regulation.

SECTION 2. DEFINITIONS

For the purposes of this regulation, unless the context otherwise requires:

(a) "*Person*" has the meaning given it in section 702(a) of the Act.¹

¹Section 702(a) of the Act provides: "The word 'person' includes an individual, corporation, partnership, association, or any other organized group of persons, or

(b) "*Registrant*" means a person who is registered pursuant to section 3 of this regulation.

(c) "*Credit*" has the meaning given it in section 602(d)(2) of the Act.²

(d) "*Extending credit*," "*extension of credit*" and "*extends credit*" shall include extending or maintaining any credit, or renewing, revising, consolidating, refinancing, purchasing, selling, discounting, or lending or borrowing on, any obligation arising out of any credit, or arranging as agent for any of the foregoing, and also shall include a sale of, or other transfer of title to, real property if the vendee or transferee assumes, or takes such property subject to, indebtedness secured by a mortgage or other lien upon such property.

(e) "*Real estate construction credit*" means any credit³ which

- (1) is wholly or partly secured by, or
- (2) is for the purpose of purchasing or carrying, or
- (3) is for the purpose of financing, or
- (4) involves a right to acquire or use,

new construction on real property or real property on which there is new construction, if such new construction is a residence, multi-unit residence, or nonresidential structure, or a major addition or major improvement to a residence, multi-unit residence, or nonresidential structure, whether such credit is extended before or after such new construction is begun; but the term "real estate construction credit"

legal successor or representative of the foregoing, and includes the United States or any agency thereof, or any other government, or any of its political subdivisions, or any agency of any of the foregoing: *Provided*, That no punishment provided by this Act shall apply to the United States, or to any such government, political subdivision, or government agency."

² Section 602(d)(2) of the Act provides: "'Credit' means any loan, mortgage, deed of trust, advance, or discount; any conditional sale contract; any contract to sell or sale or contract of sale, of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment, leasing, or other use of property under which the bailee, lessee, or user has the option of becoming the owner thereof, obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof, or has the right to have all or part of the payments required by such contract applied to the purchase price of such property or similar property; any option, demand, lien, pledge, or similar claim against, or for the delivery of property or money; any purchase, discount, or other acquisition of, or any credit under the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect."

³ Extended on or after October 12, 1950, with respect to farm residences, residential property, and major additions and major improvements to residences; or on or after January 12, 1951, with respect to multi-unit residential property and major additions and major improvements to multi-unit residences; or on or after February 15, 1951, with respect to nonresidential property and major additions and major improvements to nonresidential structures.

shall not include any loan or loans made, insured, or guaranteed, in whole or in part, by the Federal Housing Administration, the Veterans' Administration, or any other department, independent establishment or agency in the executive branch of the United States, or by any wholly owned Government corporation, or by any mixed-ownership Government corporation as defined in the Government Corporation Control Act, as amended (including any loan evidenced by obligations of any local public agency or public housing agency which national banks may purchase pursuant to the provisions of section 602(a) of the Housing Act of 1949).

(f) "*New construction*" means any structure, or any major addition or major improvement to a structure, which is or has been begun after 12 o'clock meridian, August 3, 1950. Construction will be deemed to have been "begun" when any essential materials which are to be an integral part of the structure have been affixed to or incorporated on the site in a permanent form.

(g) "*Major addition*" or "*major improvement*" means any enlargement, reconstruction, alteration, or repair of an existing structure,⁴ or any other addition or improvement which becomes or is to become physically attached to and a part of the structure,⁴ if the cost or estimated cost of such addition or improvement exceeds \$2,500, and also exceeds (1) if the structure is a residence or multi-unit residence, an amount determined by multiplying \$1,500 by the number of family units in such residence or multi-unit residence prior to such addition or improvement, or (2) if the structure is a nonresidential structure, an amount equal to 15 per cent of the appraised value of the nonresidential structure⁵ as determined in good faith by the Registrant who extends the credit.⁶

⁴ Notwithstanding this definition or any other provision of this regulation, an addition or improvement to any existing structure which will become a "residence," "multi-unit residence," or "nonresidential structure" by reason of such addition or improvement shall be treated as an addition or improvement to an existing "residence," "multi-unit residence," or "nonresidential structure," respectively; and, in determining whether the cost or estimated cost of an addition or improvement to an existing structure which will become a "residence" or "multi-unit residence" is such that it would be a major addition or major improvement within the meaning of section 2(g), and in determining what the maximum loan value is, the determination shall be according to the number of family units which will be in the structure after the addition or improvement has been completed.

⁵ For this purpose, the value of the land upon which the nonresidential structure is located is not taken into consideration; and the appraised value is the appraised value of the structure before the major addition or major improvement is made.

⁶ It should be noted that section 2(f) defines "new construction" as including "any major addition or major improvement" and that section 2(e) defines "real estate construction credit" as including certain credit with respect to "real property on which there is new construction." Accordingly, if a major addition or

(h) "*Real property*" includes leaseholds and other interest in such property.

(i) The "*maximum loan value*" of any property ⁷ shall be the amount which is computed in the manner prescribed in the Supplement to this regulation. In making such computations:

(1) For a major addition or major improvement to a residence, multi-unit residence, or nonresidential structure, "*value*" shall be the cost or estimated cost ⁸ of such major addition or major improvement;

(2) For residential property, other than major additions or major improvements:

(A) In the case of an extension of credit in connection with a *bona fide* sale of residential property, "*value*" shall be the *bona fide* sale price;

(B) In the case of any other extension of credit with respect to residential property:

(i) If the entire cost of the property to the borrower has been incurred by him not more than 12 months prior to the extension of credit or is to be incurred by him after such extension of credit, "*value*" shall be the *bona fide* cost of the property to the borrower, including a *bona fide* estimate of the cost of completing new construction on such property when the extension of credit is for the purpose of financing such new construction;

(ii) If any part of the cost of the property to the borrower has been incurred by him more than 12 months prior to the extension of credit, or if any part of such property has been acquired by gift, exchange, or inheritance, "*value*" shall be the appraised value as determined in good faith by the Registrant who extends the credit;

major improvement is made to an existing structure, even though such structure was erected or begun prior to August 3, 1950, any subsequent extension of credit with respect to such structure or the property on which it is located is "real estate construction credit." However, in determining whether property has become "real property on which there is new construction" by reason of a major addition or major improvement having been made to an existing structure, there shall be considered only such costs as are or have been incurred during any period of 12 consecutive months (or during a period not exceeding 12 months beginning January 12, 1951, if the structure is a residence or multi-unit residence, or beginning February 15, 1951, if the structure is a nonresidential structure).

⁷ As used here, "property" means residential property, multi-unit residential property, nonresidential property, a residence on farm property, or a major addition or major improvement to a residence, a multi-unit residence, or nonresidential structure, as the case may be.

⁸ Based on such evidence and supporting data as normally would be required by a prudent lender.

(3) For an extension of credit which is for the purpose of financing the construction of a residence on farm property, "value" shall be the total of (A) the cost or estimated cost of such new construction, and (B) 5 per cent of such cost or estimated cost.⁹

(4) For multi-unit residential property and nonresidential property, other than major additions or major improvements:

(A) In the case of an extension of credit in connection with a *bona fide* sale of multi-unit residential property or nonresidential property, "value" shall be the *bona fide* sale price;

(B) In the case of any other extension of credit with respect to multi-unit residential property or nonresidential property, "value" shall be the appraised value as determined in good faith by the Registrant who extends the credit. Appraisals pursuant to this provision and other provisions of this regulation will be subject to inspection by the Board and the Federal Reserve Banks in accordance with section 6(d) of this regulation, and appraisals found to be in excess of those dictated by sound and established practice in the community shall be deemed sufficient ground for the suspension of the Registrant pursuant to section 3 (c) of this regulation.

(j) "*Bona fide sale price*" means the amount paid or to be paid by the vendee in money or its equivalent. It includes, in addition to cash, (1) the value of any property accepted in part payment, (2) the unpaid principal amount of any indebtedness incurred or assumed by the vendee or to which the property remains subject, (3) the amount of any liens for taxes or special assessments which are in default or currently due and payable, (4) the amount of any mechanics' liens or other liens which the vendee is required to discharge, (5) the amount which the vendee agrees to pay for any alteration or other modification made or to be made to the property as an incident to the sale thereof, and (6) any amounts paid by the vendee for closing costs. It does not include any prepaid charges, or any accrued rents which will be paid to the vendee.

(k) "*Residence*"¹⁰ means any structure which is used or designed for permanent or transient dwelling purposes, and which include at

⁹ The 5 per cent is added when the extension of credit is for the purpose of financing the construction of a residence on farm property in order to take account of the value of the land upon which the residence is to be constructed.

¹⁰ Structures such as hotels, motels, rooming houses, club houses, fraternity or sorority houses, rest homes, and the like, in which more than one-half of the floor space consists of units which do not contain kitchen facilities or space designed for kitchen facilities shall not be deemed to be residences or multi-unit residences. See section 2(7).

least one but not more than four family units, if the floor space contained in such family units comprises at least one-half of the floor space of such structure. Houses connected by common walls and commonly known as "row houses" or "semidetached houses" shall be considered separate structures.

(l) "*Multi-unit residence*"¹⁰ means any structure such as an apartment house or apartment hotel (whether owned cooperatively or otherwise) which is used or designed for permanent or transient dwelling purposes, and which includes more than four family units, if the floor space contained in such family units comprises at least one-half of the floor space of such structure.

(m) "*Family unit*" means space which is used or designed for dwelling purposes and which contains one or more rooms with kitchen facilities (or space designed for kitchen facilities) in or appurtenant to such rooms.

(n) "*Residential property*" means any real property, other than farm property, on which there is or is to be a residence or residences.

(o) "*Farm property*" means any real property, other than multi-unit residential property or nonresidential property, located outside of urban areas, which is principally used for the production of crops, livestock or other agricultural commodities.

(p) "*Multi-unit residential property*" means any real property on which there is or is to be a multi-unit residence or multi-unit residences.

(q) "*Nonresidential property*" means any real property on which there is or is to be a nonresidential structure or structures.

(r) "*Nonresidential structure*"¹¹ means any structure other than

- (1) a residence,
- (2) a multi-unit residence,
- (3) a school, hospital, or church,
- (4) a structure exclusively used or designed for use
 - (i) by a public utility,
 - (ii) by any Government or political subdivision, or
- (5) a structure more than 80 per cent of the floor space of which is used or designed for use
 - (i) in processing materials, goods, or articles into finished or partly finished manufactured products,
 - (ii) in mining or otherwise extracting raw materials, or

¹⁰ For footnote, see preceding page.

¹¹ Nonresidential structures ordinarily subject to this regulation include, among others, the following: Office buildings, warehouses, stores (including sales display and service facilities, whether wholesale or retail), banks, hotels, motels, motor courts, garages, automobile service stations, restaurants, and clubs.

(iii) on farm property in the production, shelter, or storage incidental thereto, of crops, livestock or other agricultural commodities.

(s) "*Public utility*" means any transportation company, electric light or power company, gas company, water company, pipe line company, telephone company, telegraph company, or other similar business which is operated for the convenience, service or accommodation of the public if (1) the operations of such company are supervised by a Federal or State agency, or (2) the members of the public as such are entitled as of right to demand and use its facilities or services.

SECTION 3. GENERAL REQUIREMENTS AND REGISTRATION

(a) **General Requirements.**—No person engaged in the business of extending real estate credit with respect to residences, residential property, multi-unit residential property or nonresidential property shall extend real estate construction credit unless (1) he is registered pursuant to this section, and (2) he has no knowledge of, and has no reason to know, any fact by reason of which such credit fails to comply with any applicable provision of this regulation.

(b) **Registration.**—Every person engaged in the business of extending real estate credit with respect to residences, residential property, multi-unit residential property or nonresidential property shall be deemed to be registered pursuant to this regulation until such time as the Board, by public announcement, may require registration statements to be filed by all, or any specified classes of, such persons. Should the Board require such registration statements, a person shall continue to be registered after the time such statements are required only if he shall have complied with the requirements of the Board's announcement. Every person who is registered in accordance with the provisions of this subsection is referred to in this regulation as a "Registrant."

(c) **Suspension of Registration.**—Any Registrant may, after reasonable notice and opportunity for a hearing, be suspended by the Board, as to all or as to particular activities or particular offices and for specified or indefinite periods, because of any willful or negligent failure to comply with any provision of this regulation.

A suspension for a specified period will terminate upon the expiration of such period. A suspension for an indefinite period may be terminated by the Board, in its discretion, if the Board is satisfied that its action would not lead to further violations of this regulation

by the suspended Registrant and would not be otherwise incompatible with the public interest.

SECTION 4. EXTENSION OF CREDIT

(a) **Amount; Maturity; Amortization.**—Except as otherwise permitted by this regulation, no Registrant shall, either in connection with a sale or otherwise:

(1) Extend real estate construction credit with respect to residential property, multi-unit residential property, or nonresidential property (other than major additions or major improvements) if the amount of credit outstanding with respect to the property (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such property;

(2) Extend real estate construction credit for the purpose of financing a major addition or major improvement to a residence, multi-unit residence or nonresidential structure if the amount of credit outstanding for the purpose of financing the major addition or major improvement (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such major addition or major improvement;

(3) Extend real estate construction credit for the purpose of financing the construction of a residence on farm property if the amount of credit outstanding for the purpose of financing the construction of the residence (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such residence;

(4) Extend real estate construction credit if such credit would have a maturity which exceeds the applicable maximum maturity provisions, or would be repaid in any manner which does not conform with the applicable amortization provisions, set forth in the Supplement to this regulation;

(5) Purchase, discount or lend on any credit instrument evidencing real estate construction credit which is subject to and not exempt from this regulation, unless the terms of such credit conformed with the provisions of the Supplement to this regulation when such credit was originally extended or conform with the provisions of the Supplement at the time of such purchase, discount or loan; but for the purposes of this paragraph credit shall be con-

sidered to be subject to the regulation even though extended by a person other than a Registrant;

(6) If the Registrant is acting as principal—sell, or transfer title to, residential property, multi-unit residential property or non-residential property on which there is new construction (which is a residence, multi-unit residence or nonresidential structure, or a major addition or major improvement to a residence, multi-unit residence or nonresidential structure) and with respect to which the vendee or transferee assumes, or takes such property subject to, indebtedness secured by a mortgage or other lien upon such property, if the amount of outstanding credit (including any credit exempt from, or not subject to the prohibitions of, this regulation) which was extended after October 12, 1950, (or after January 12, 1951, if it is a sale or transfer of multi-unit residential property or after February 15, 1951, if it is a sale or transfer of nonresidential property) with respect to the property exceeds, or as a result of such sale or transfer would exceed, the applicable maximum loan value of such property, or if any outstanding real estate construction credit (subject to and not exempt from this regulation) with respect to such property does not conform with the provisions of this regulation and the Supplement thereto.¹²

(b) **Secondary Borrowing.**—Except as otherwise permitted by this regulation, no Registrant shall extend real estate construction credit if he knows or has reason to know that there is, or that there is to be, any other credit extended with respect to the property¹³ (1) which, when added to the credit proposed to be extended by the Registrant, would cause the total amount of credit outstanding with respect to the property¹³ (including any credit exempt from, or not subject to the prohibitions of, this regulation) to exceed the applicable maximum loan value of such property, or (2) which, if it is real estate construction credit subject to and not exempt from this regulation, does not or would not comply with the applicable maximum maturity and amortization provisions set forth in the Supplement to this regulation.

(c) **Ascertaining Nature of Credit.**—No Registrant shall extend any credit unless he is satisfied, and maintains records which reasonably demonstrate on their face, whether such credit is or is not real

¹² For application to three- and four-unit residences, see section 6(j).

¹³ As used here, "property" means residential property, multi-unit residential property, nonresidential property, a residence on farm property, or a major addition or major improvement to a residence, a multi-unit residence or nonresidential structure, as the case may be.

estate construction credit; provided, however, unless the Registrant has actual knowledge that the credit is real estate construction credit, the requirements of this sentence shall not apply (1) to any extension of credit which is made by a bank, savings and loan association, or similar institution and which is to be repaid within six months and is fully secured by withdrawable shares issued by or savings accounts held with the lender, or (2) to any extension of credit in the ordinary course of business for a commercial, agricultural, or business purpose where the Registrant, because of a previous course of dealings or correspondence between himself and the borrower, has no reason to believe that the credit is or will be real estate construction credit. The preceding sentence does not require that a Registrant obtain a signed statement from each borrower, and if the Registrant is satisfied that credit is not real estate construction credit, other kinds of records may be used to demonstrate this fact. Such records may include, among others, (1) any correspondence, memoranda, loan applications or other documents of any kind, whether or not originating in connection with the credit in question, which on the basis of a reasonable interpretation show that the credit is not real estate construction credit; or (2) a written endorsement or rubber stamp legend, placed upon the credit instrument or upon other papers in connection with the credit and signed by the Registrant or a responsible officer of the Registrant, stating that he is satisfied that the credit in question is not real estate construction credit. If, however, a Registrant desires to obtain, and accepts in good faith, a signed Statement of the Borrower stating that the credit is not wholly or partly secured by, or for the purpose of purchasing or carrying, or for the purpose of financing, or one which involves the right to acquire or use, new construction on real property or real property on which there is new construction (or that such new construction, if any, is not a residence, multi-unit residence or nonresidential structure, or a major addition or major improvement to a residence, multi-unit residence or nonresidential structure), such Statement shall be deemed to be compliance with the requirements of this subsection.

(d) **Statement of the Borrower.**—No Registrant shall extend real estate construction credit unless he has accepted in good faith a signed Statement of the Borrower (1) stating whether the credit is with respect to property¹⁴ subject to the regulation, and (2) stating,

¹⁴ As used here, "property" means residential property, multi-unit residential property, nonresidential property, a residence on farm property, or a major addition or major improvement to a residence, multi-unit residence, or nonresidential structure, as the case may be.

if the Registrant claims that such credit is exempt from this regulation, the reason for such exemption; and, if the credit is not exempt, (3) stating the amount of credit previously extended and outstanding, and the amount of any other credit to be extended, with respect to the property,¹⁴ (4) stating, if the Registrant in computing "value" relies upon cost or estimated cost to the borrower (where such cost or estimated cost may be used for this purpose), the *bona fide* amount of such cost or estimated cost to the borrower, and (5) stating, if the extension of credit is in connection with a sale, the sale price, that the sale price was *bona fide*, and the value and a brief description of any property accepted in part payment. If the extension of credit is in connection with a sale, such Statement shall state that the vendor of the property has or will have no financial interest in such property or in the proceeds of any subsequent disposition thereof, except such interest as may be fully disclosed to the Registrant. The amount of any such financial interest of the vendor retained in the property or any proceeds of the disposition thereof shall be deemed to be real estate construction credit extended with respect to such property. The Statement of the Borrower may be made, if desired, on a form a sample of which is obtainable at any Federal Reserve Bank or branch.

SECTION 5. EXEMPTIONS AND EXCEPTIONS

(a) **Minimum Amount.**—The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to any extension of credit if the total amount thereof, including all outstanding credit which was granted after October 12, 1950, with respect to the same property,¹⁵ is not in excess of \$2,500.

(b) **Short-Term Residential Construction Credits.**—The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to any credit which is for the purpose of financing the construction of a residence or residences or a major addition or major improvement to a residence, if the maturity of such credit is not more than 18 months; provided, that this exemption shall not be construed to permit any renewal, revision, consolidation, or refinancing of such credit except on terms which conform with the provisions of this regulation and the Supplement thereto. If (1) the initial purpose of an extension of credit having a maturity exceeding 18 months is

¹⁴ For footnote, see preceding page.

¹⁵ As used here, "property" means residential property, multi-unit residential property, nonresidential property, a residence on farm property, or a major addition or major improvement to a residence, multi-unit residence, or nonresidential structure, as the case may be.

the financing of the construction of a residence or residences or a major addition or major improvement to a residence and (2) the credit instrument provides, or an agreement with respect to the credit requires, that within 32 days after completion of such construction or upon a specified date when the Registrant estimates in good faith the construction will be completed, which in either case shall be not more than 18 months after the extension of the credit, the terms of the credit shall conform thereafter with the applicable maximum loan value and the applicable maturity and amortization provisions set forth in Schedule I of the Supplement to this regulation, then in such event the prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to such credit until after the lapse of the time so described or specified, but if at any time after the date of the extension of such credit, a Registrant sells or transfers title to the property with respect to which the credit is extended, such sale or transfer of title must conform to the provisions of this regulation and Schedule I of the Supplement thereto.¹⁶

(c) **Other Short-Term Construction Credits.**—The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to any credit which is for the purpose of financing the construction of a multi-unit residence or nonresidential structure or a major addition or major improvement to a multi-unit residence or nonresidential structure and which is extended to any person other than the owner of the property and has a maturity of not more than 24 months; provided, that this exemption shall not be construed to permit any renewal, revision, consolidation, or refinancing of such credit except on terms which conform with the provisions of this regulation and the Supplement thereto. Extensions of credit for the purpose of financing the construction of a multi-unit residence or nonresidential structure or a major addition or major improvement to a multi-unit residence or nonresidential structure may not be made to the owner of the property in a total amount exceeding the maximum loan value of the property; but any such credit extended to the owner of the property shall be exempt from the amortization provision in Schedule III of the Supplement to this regulation if (1) such credit has a maturity of not more than 24 months, or (2) the initial purpose of credit having a maturity exceeding 24 months is the financing of the construction of a nonresidential structure or nonresidential struc-

¹⁶ It should be noted that this exemption does not apply to any credit which is for the purpose of financing the construction of a multi-unit residence or nonresidential structure or a major addition or major improvement to a multi-unit residence or nonresidential structure. However, see section 5(c).

tures or a major addition or major improvement to a nonresidential structure, and the credit instrument provides, or an agreement with respect to the credit requires, that within 32 days after completion of such construction or upon a specified date when the Registrant estimates in good faith the construction will be completed, which in either case shall be not more than 24 months after the extension of the credit, the terms of the credit shall conform thereafter with the applicable maturity and amortization provisions set forth in Schedule III of the Supplement to this regulation; but if at any time after the date of the extension of such credit, a Registrant sells or transfers title to the property with respect to which the credit is extended, such sale or transfer of title must conform to the provisions of this regulation and Schedule III of the Supplement thereto.

(d) **Medical Expenses, Etc.**—The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to any extension of real estate construction credit as to which the Registrant accepts in good faith a signed Statement of the Borrower certifying that the proceeds thereof are to be used for *bona fide* medical, hospital, dental, or funeral expenses, or to pay debts incurred for such expenses, and that the proceeds of the extension are to be paid over in amounts specified in such Statement to persons whose names, addresses and occupations are stated therein.

(e) **Casualties.**—The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to any extension of real estate construction credit as to which the Registrant accepts in good faith a signed Statement of the Borrower certifying that the proceeds thereof are to be used solely for the replacement, reconstruction or repair of a residence, multi-unit residence or nonresidential structure destroyed or substantially damaged by flood, fire or other similar casualty.

(f) **Contracts to Sell.**—None of the provisions of this regulation shall apply to a contract to sell real property (1) which does not provide for the payment of any part of the purchase price, or of any amount to be subsequently applied to such price, except a deposit of earnest money, before the transfer of title to such property, (2) which is to be performed by a transfer of title to such property within six months after the date on which the contract was entered into, and (3) which provides for the subsequent transfer of title to such property on terms which conform to the provisions of this regulation and the Supplement thereto in effect on the date the contract was entered into.

(g) **Contemplated Construction.**—Any builder or other person who had made substantial commitments or undertakings before August 3, 1950, with a view to the building of new construction which is a residence or a major addition or major improvement to a residence and who asserts that his inability to obtain credit to finance such new construction on the basis contemplated by him and by the Registrant prior to August 3, 1950, would cause him substantial hardship, may apply to the Federal Reserve Bank of the district in which the new construction is contemplated for an exemption from this regulation for such new construction, showing all the facts and submitting all necessary supporting documents with respect to his commitments or undertakings and why compliance with the regulation would cause him substantial hardship. If such Federal Reserve Bank after consideration of the application and supporting documents determines that substantial commitments were made prior to August 3, 1950, and that substantial hardship would result from the application of this regulation in such case, it may issue to such builder or other person a certificate approving such application and thereupon any extension of credit to such builder or other person by the Registrant named in such certificate with respect to the new construction that may be specified in such certificate shall be exempt from the prohibitions of subsections (a) and (b) of section 4 of this regulation. Applications under this subsection must be sent to the Federal Reserve Bank prior to March 15, 1951.

(h) **Labor and Material.**—No person shall be required to register pursuant to section 3 of this regulation because of the fact that he performs labor or furnishes material for new construction on an open account, unless he shall be otherwise engaged in the business of extending real estate credit.

(i) **Credits Secured by Life Insurance Policies.**—None of the provisions of this regulation shall apply to an extension of real estate construction credit which is fully secured by the loan value or cash surrender value of a life insurance policy; and, notwithstanding any other provisions of this regulation, a Registrant in determining the amount of credit which he may extend under the provisions of section 4 of the regulation need not take into account any credit which is secured in the manner specified in this subsection.

(j) **Farm Property.**—The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to any extension of real estate construction credit with respect to farm property unless the

extension of credit is for the purpose of financing the construction of a residence on farm property or a major addition or major improvement to a residence on farm property.¹⁷

(*k*) **Exemption for Certain New Construction.**—The prohibitions of subsections (*a*) and (*b*) of section 4 of this regulation shall not apply to any real estate construction credit extended prior to May 1, 1951, with respect to new construction (1) begun prior to October 12, 1950, if such new construction is a residence or a major addition or major improvement to a residence, (2) begun prior to January 12, 1951, if such new construction is a multi-unit residence or a major addition or major improvement to a multi-unit residence,¹⁸ or (3) begun prior to February 15, 1951, if such new construction is a nonresidential structure or a major addition or major improvement to a nonresidential structure.

(*l*) **Materials, Articles and Services Used in New Construction.**—None of the provisions of this regulation shall apply to an extension of credit which is for the purpose of purchasing, or is in connection with a sale of, materials, articles and services for new construction if the credit is extended on terms which provide for a minimum down payment of 10 per cent, or a maximum loan value of 90 per cent, and for repayment within 30 months by (1) substantially equal monthly or weekly payments covering principal and interest or (2) substantially equal monthly or weekly payments of principal.¹⁹

SECTION 6. MISCELLANEOUS PROVISIONS

(*a*) **Evasions.**—No extension of real estate construction credit complies with the requirements of this regulation if at the time it is made there is any agreement, arrangement, or understanding, of which the Registrant knows or has reason to know, by which credit is or is to be extended in violation of this regulation, even though such extension of credit is or is to be made indirectly, or which would otherwise evade or circumvent, or conceal any evasion or circumvention of, any provision of this regulation or the Supplement thereto. No Registrant

¹⁷ It is to be noted that the term "farm property" as defined in section 2(*o*) does not include multi-unit residential property or nonresidential property; accordingly, the location of multi-unit residential property or nonresidential property does not affect the question whether extensions of credit with respect to such property are subject to the regulation.

¹⁸ For application to three- and four-unit residences, see section 6(*j*).

¹⁹ It should be noted that in certain circumstances more restrictive terms would be required by Regulation W.

extending credit subject to this regulation shall divide such credit into two or more parts, or enter into any agreement or understanding with any other person as a result of which two or more credits are extended, when the purpose or effect of such action is to circumvent or avoid the amortization or maturity provisions of this regulation or the Supplement thereto.

(b) **Outstanding Contracts and Obligations.**—The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to or affect (i) any credit with respect to residential property or a major addition or major improvement to a residence if extended prior to October 12, 1950, or pursuant to any firm commitment to extend credit made prior to such date, (ii) any credit with respect to multi-unit residential property or a major addition or major improvement to a multi-unit residence if extended prior to January 12, 1951, or pursuant to any firm commitment to extend credit made prior to such date, or (iii) any credit with respect to nonresidential property or a major addition or major improvement to a nonresidential structure if extended prior to February 15, 1951, or pursuant to any firm commitment to extend credit made prior to such date, if such firm commitment complies with Clause (1) of the next succeeding sentence. For this purpose, a firm commitment means either (1) a written agreement under which the Registrant is required without option or discretion on his part to extend credit upon demand by the borrower or upon compliance by the borrower with one or more conditions referred to in such agreement; or (2) any other agreement to extend credit with respect to residential property, a residence, or a major addition or major improvement to a residence which has been entered into in good faith by the parties and in reliance upon which the prospective borrower or builder has taken specific action prior to October 12, 1950, if the Registrant prior to January 1, 1951, shall have sent to the Federal Reserve Bank of the district in which he does business a letter or other statement reciting the facts with respect to such agreement and the specific action taken by the prospective borrower or builder prior to October 12, 1950; or (3) any other agreement to extend credit with respect to multi-unit residential property or a major addition or major improvement to a multi-unit residence which has been entered into in good faith by the parties and in reliance upon which the prospective borrower or builder has taken specific action prior to January 12, 1951, if the Registrant prior to March 15, 1951, shall have sent to the Federal Reserve Bank of the district in which he does business a letter or other statement reciting the facts with respect to such agreement and the

specific action taken by the prospective borrower or builder prior to January 12, 1951.²⁰

(c) **Real Property Outside the United States.**—None of the prohibitions of this regulation shall apply to any extension of real estate construction credit with respect to real property in Alaska, the Panama Canal Zone, or any territory or possession outside the continental United States.

(d) **Preservation of Records; Inspections; Administrative Reports.**—For the purpose of determining whether or not there has been compliance with the provisions of this regulation, every person extending real estate credit with respect to residences, residential property, multi-unit residential property or nonresidential property shall preserve for the period hereinafter specified such accounts, correspondence, memoranda, papers, books, and other records, or photostats or other copies thereof, as are relevant to establishing whether such person is engaged in the business of extending such real estate credit; whether each credit extended is or is not real estate construction credit with respect to a farm residence, residential property, multi-unit residential property, nonresidential property, or a major addition or major improvement to a residence, multi-unit residence, or nonresidential structure; and whether each extension of real estate construction credit conformed with the provisions of this regulation and the Supplement thereto. Every such person shall preserve such records for three years after the extension of such credit, or until the repayment of the credit, whichever period is shorter, provided, however, that if such person sells or transfers an obligation evidencing a credit (or releases collateral held as security for such credit) and delivers his records relevant to such credit to the purchaser or transferee, such person need not thereafter maintain such records with respect to the credit but shall keep a record of the identity of the purchaser or transferee and the date of such sale or transfer (or such release). Every such person shall permit the Board or a Federal Reserve Bank, by its duly authorized representative, to inspect such records and business operations as the Board or a Federal Reserve Bank may deem necessary or appropriate; and when ordered to do so, shall furnish, under oath or otherwise, such reports, information, or records relevant to extensions of credit as the Board or a Federal Reserve Bank may deem necessary or appropriate for the enforcement and administration of this regulation.²¹

²⁰ For application to three- and four-unit residences, see section 6(j).

²¹ The reporting and record-keeping requirements of this regulation have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

(e) **Default and Foreclosure; Serviceman's Preinduction Debt.**—Nothing in this regulation shall be construed to prevent any Registrant from taking such action as he shall deem necessary in good faith (1) with respect to any extension of credit to any member or former member of the armed forces of the United States which was made to him prior to his induction into such service and assignment to active duty, or (2) for the Registrant's own protection in connection with any credit which is in default and is the subject of a *bona fide* collection effort by the Registrant. The prohibitions of subsections (a) and (b) of section 4 of this regulation shall not apply to an extension of credit by a Registrant in connection with a sale of property acquired by him through foreclosure proceedings if such credit does not exceed the unpaid principal amount of the foreclosed credit, the costs of acquisition through foreclosure, and the costs incurred in the rehabilitation and repair of the property prior to the sale.

(f) **Veterans Programs under State Law.**—Nothing in this regulation shall be construed as prohibiting a State (as distinguished from any other person affected by this regulation) from according rights and preferences to eligible veterans by extending, guaranteeing or insuring, in whole or in part, real estate construction credit pursuant to State legislation similar in purpose or effect to Title III of the Servicemen's Readjustment Act of 1944, as amended, provided that the terms of the credit are no more liberal than are currently permitted in the case of comparable loans insured or guaranteed under that Act.

(g) **State Housing Programs.**—Nothing in this regulation shall prohibit extensions of credit to public corporations created pursuant to a public housing program of a State or municipality where such credit is extended, insured, or guaranteed by the State or municipality or the State or municipality has made commitments to furnish funds to assure repayment.

(h) **Extension of Credit for Mixed Purposes.**—In the case of an extension of credit which is partly subject to one provision of this regulation and partly subject to another provision, whether by reason of the types of property involved, or otherwise, the amount and terms of such credit shall be such as would result if the credit were divided into two or more parts and each part were treated as if it stood alone. In the case of an extension of credit which is partly subject to this regulation and partly not subject to (or exempt from) the regulation, the amount and terms of the extension of credit will comply with this regulation if they satisfy the requirements of this regulation applicable to the subject portion.

(i) **Calculation of Maximum Maturity.**—In calculating the maximum maturity of credits which are subject to maximum maturity provisions in the Supplement to this regulation, a Registrant may use, at his option, as “the date such credit is extended,” any date not more than 32 days subsequent to the actual date such credit is extended.

(j) **Three- and Four-Unit Residences.**—Notwithstanding any other provisions of this regulation, the provisions of sections 4(a) (6), 5(k), and 6(b) of this regulation which are applicable to multi-unit residences shall be applicable to residences containing three or four family units.

(k) **Right of Registrant to Impose Stricter Requirements.**—Any Registrant, if he desires, may refuse to extend credit, extend less credit than the amount permitted by this regulation, or require that repayment be made within a shorter period or in larger instalments than prescribed in the Supplement to this regulation.

(l) **Reliance upon Statement of the Borrower.**—The facts set forth in any signed Statement of the Borrower which a Registrant accepts and relies upon in good faith shall be deemed to be correct for the purposes of the Registrant.

(m) **False Statements.**—The making or submission by any person of any false, fictitious or fraudulent statement or representation pursuant to, or which is intended to conform to, or show compliance with, any requirement or provision of this regulation, shall be a violation of this regulation.

(n) **Statutory Penalties.**—The Act provides that “Any person who willfully violates any provision of section * * * 602 (relating to real estate construction credit) or any regulation or order issued thereunder, upon conviction thereof, shall be fined not more than \$5,000 or imprisoned not more than one year, or both.”

(o) **Enforceability of Contracts.**—Nothing in this regulation shall affect the enforceability of any contract.

SUPPLEMENT TO REGULATION X

As amended effective February 15, 1951

SCHEDULE I. ONE- TO FOUR-UNIT RESIDENTIAL PROPERTY AND FARM RESIDENCES

Maximum Loan Value.—For the purposes of Regulation X, maximum loan values for all residential property, farm residences, and major additions and major improvements to residences shall be determined as follows: (1) Determine the “value” of the residential property, farm residence, or major addition or major improvement to a residence, as the case may be, in accordance with section 2(i) of the regulation; (2) divide this “value” by the number of family units in order to determine the “value per family unit”; (3) determine the “maximum loan value per family unit” from the table below; (4) multiply the “maximum loan value per family unit” by the number of family units in order to determine the maximum loan value of the residential property, farm residence, or major addition or major improvement, as the case may be. Where a major addition or major improvement will change the number of family units, the “value per family unit” shall be computed on the basis of the number of family units which the residence will contain after the addition or improvement has been completed. In the case of credit extended with respect to residential property or farm residences involving more than one structure, the maximum loan value may be applied separately with respect to each such structure or with respect to the entire property or all such residences, at the election of the Registrant.

If the “value per family unit” is	The “maximum loan value per family unit” is
Not more than \$5,000	90% of “value per family unit”
More than \$5,000 but not more than \$9,000	\$4,500 plus 65% of excess of “value per family unit” over \$5,000
More than \$9,000 but not more than \$15,000	\$7,100 plus 60% of excess of “value per family unit” over \$9,000
More than \$15,000 but not more than \$20,000	\$10,700 plus 20% of excess of “value per family unit” over \$15,000
More than \$20,000 but not more than \$24,250	\$11,700 plus 10% of excess of “value per family unit” over \$20,000
Over \$24,250	50% of “value per family unit”

Maturity.—For the purposes of Regulation X, the following maturity requirements are prescribed for credit with respect to residential property, farm residences, and major additions and major improvements to residences: No such credit subject to the regulation shall have a maturity of more than 20 years from the date such credit is extended except that a credit extended with respect to property having a value (determined as provided in section 2(i) of the regulation) of \$7,000 or less may have a maturity of not more than 25 years if it is to be fully repaid at or before the date of maturity through amortization on the basis prescribed in clause (2) of the following paragraph relating to amortization:

Amortization.—For the purposes of Regulation X, the following amortization requirements are prescribed for credit with respect to residential property, farm residences, and major additions and major improvements to residences: With respect to every such credit subject to the regulation, amortization payments shall be required which either (1) will annually reduce the original principal amount of such credit by not less than 5 per cent until the outstanding balance of such credit has been reduced to an amount equal to or less than 50 per cent of the value of the property with respect to which such credit was extended or (2) will fully liquidate the original principal amount of such credit not later than the date of the maturity of the credit through substantially equal monthly, quarterly, semi-annual, or annual payments covering principal and interest or through substantially equal monthly, quarterly, semiannual, or annual payments of principal. The value referred to in the preceding sentence shall be determined as of the date the credit was extended in the manner provided in section 2(i) of the regulation. If the amount of the credit when extended is not more than 50 per cent of such value, such credit shall not be subject to the amortization provisions of this paragraph.

SCHEDULE II. MULTI-UNIT RESIDENTIAL PROPERTY

Maximum Loan Value.—For the purposes of Regulation X, maximum loan values for all multi-unit residential property and major additions and major improvements to multi-unit residences shall be determined as follows: (1) determine the “value” of the multi-unit residential property, or major addition or major improvement to a multi-unit residence, as the case may be, in accordance with section 2(i) of the regulation; (2) divide this “value” by the number of family units in order to determine the “value per family unit”; (3)

determine the "maximum loan value per family unit" from the table below; (4) multiply the "maximum loan value per family unit" by the number of family units in order to determine the maximum loan value of the multi-unit residential property, or the major addition or major improvement, as the case may be. Where a major addition or major improvement will change the number of family units, the "value per family unit" shall be computed on the basis of the number of family units which the multi-unit residence will contain after the addition or improvement has been completed. In the case of credit extended with respect to multi-unit residential property involving more than one such multi-unit residence, the maximum loan value shall be applied separately with respect to each such multi-unit residence or with respect to the entire property, at the election of the Registrant.

If the "value per family unit" is	The "maximum loan value per family unit" is
Not more than \$7,000	83% of "value per family unit"
More than \$7,000 but not more than \$15,000	\$5,810 plus 53% of excess of "value per family unit" over \$7,000
More than \$15,000 but not more than \$23,500	\$10,050 plus 20% of excess of "value per family unit" over \$15,000
Over \$23,500	50% of "value per family unit"

SCHEDULE III. NONRESIDENTIAL PROPERTY

Maximum Loan Value.—For the purposes of Regulation X, the maximum loan value of any nonresidential property or major addition or major improvement to a nonresidential structure shall be 50 per cent of the "value" of the property, or the major addition or major improvement, determined in accordance with section 2(i) of this regulation. In the case of credit extended with respect to nonresidential property involving more than one nonresidential structure, the maximum loan value may be applied separately with respect to each such structure, or with respect to the entire property, at the election of the Registrant.

Maturity.—For the purposes of Regulation X, the following maturity requirement is prescribed for credit with respect to nonresidential property and major additions and major improvements to nonresiden-

tial structures: No such credit subject to the regulation shall have a maturity of more than 25 years from the date such credit is extended.

Amortization.—For the purposes of Regulation X, the following amortization requirement is prescribed for credit with respect to non-residential property and major additions and major improvements to nonresidential structures: With respect to every such credit subject to the regulation, amortization payments shall be required which will fully liquidate the original principal amount of such credit not later than the date of the maturity of the credit through substantially equal monthly, quarterly, semiannual, or annual payments covering principal and interest or through substantially equal monthly, quarterly, semiannual, or annual payments of principal.