

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 5, 1951.

PRESENT: Mr. McCabe, Chairman
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 4, 1951, were approved unanimously.

In accordance with the action taken at the meeting of the Board yesterday, the question of provision in the proposed amended Regulation X, Residential Real Estate Credit, for special terms for defense housing was taken up informally yesterday afternoon with the Office of Defense Mobilization and objection was raised to inclusion in the regulation of a provision along the lines proposed by the Board. Accordingly, the members of the Board present agreed unanimously that the Regulation should be adopted without the provision with the understanding that members of the staff would consult with representatives of the Office of Defense Mobilization and the Administrator of the Housing and Home Finance Agency for the purpose of working out a solution as promptly as possible which could be incorporated in the regulation by subsequent amendment.

Thereupon, unanimous approval was given to Regulation X, Residential Real Estate Credit, in the following form with the understanding that if

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the Administrator of the Housing and Home Finance Agency advised that he concurred in the Regulation and its terms and also agreed on the proposed effective date, the regulation would be given to the press on the afternoon of Thursday, January 11, for release in the morning papers of Friday, January 12, 1951:

"REGULATION X

"As amended effective January 12, 1951

"RESIDENTIAL 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, 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, or multi-unit residential 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, real estate credit with respect to residences, residential property, or multi-unit residential property shall be deemed to include credit with respect to any residence, residential property, or multi-unit residential 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.

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"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

(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

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

²Section 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."

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"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 credit, hereafter extended, 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 or multi-unit residence or a major addition or major improvement to a residence or multi-unit residence, whether such credit is extended before or after such new construction is begun; but the term 'real estate construction credit' 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

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"of an existing residence³ or multi-unit residence,³ or any other addition or improvement which becomes or is to become physically attached to and a part of the residence or multi-unit residence, if the cost or estimated cost of such addition or improvement exceeds \$2,500 and also exceeds 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. In determining whether the cost of an addition or improvement project exceeds the amounts specified in the preceding sentence, there shall be considered only the amount of such cost which is incurred within any twelve consecutive months.

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

(i) The 'maximum loan value' of any property⁴ 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 or multi-unit residence, 'value' shall be the cost or estimated cost of such major addition or major improvement;

³Notwithstanding this definition or any other provision of this regulation, an addition or improvement to an existing structure which will become a 'residence' or 'multi-unit residence' by reason of such addition or improvement shall be treated as an addition or improvement to an existing 'residence' or 'multi-unit residence' respectively; and, in determining whether the cost or estimated cost of an addition or improvement of the kind mentioned in this footnote 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."

⁴As used here, 'property' means residential property, multi-unit residential property, a residence on farm property, or a major addition or major improvement to a residence or a multi-unit residence, as the case may be."

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"(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;

(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.⁵

(4) For multi-unit 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 multi-unit residential 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, '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

"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."

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"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'⁶ means any structure which is used or designed for permanent or transient dwelling purposes, and which includes at 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'⁶ 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.

"⁶Structures commonly known as hotels, motels, rooming houses, club houses, fraternity or sorority houses, dormitories, hospitals, rest homes, and the like, in which more than one-half of the floor space consists of units which do not include kitchen facilities or space designed for kitchen facilities shall not be deemed to be residences or multi-unit residences."

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"(m) 'Family unit' means space which is used or designed for dwelling purposes and which includes one or more rooms together with kitchen facilities or space designed for kitchen facilities.

(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, 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.

"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, or multi-unit residential 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, or multi-unit residential property shall be deemed to be registered pursuant to this regulation from the effective date hereof 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

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"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 or multi-unit residential 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 or multi-unit residence 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

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"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 considered 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 or multi-unit residential property on which there is new construction (which is a residence or multi-unit residence or a major addition or major improvement to a residence or multi-unit residence) 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) 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

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"and the Supplement thereto.⁷

"(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 property⁸ (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 property⁸ (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 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,

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

"⁸As used here, 'property' means residential property, multi-unit residential property, a residence on farm property, or a major addition or major improvement to a residence or a multi-unit residence, as the case may be."

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"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 or multi-unit residence or a major addition or major improvement to a residence or multi-unit residence), 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 (A) residential property, (B) a residence on farm property, (C) a major addition or a major improvement to a residence, (D) multi-unit residential property, or (E) a major addition or a major improvement to a multi-unit residence; and (2) stating, 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 residential property, the residence on farm property, the major addition or major improvement to a residence, the multi-unit residential property, or the major addition or major improvement to a multi-unit residence, (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

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"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,⁹ 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

⁹As used here, 'property' means residential property, multi-unit residential property, a residence on farm property, or a major addition or major improvement to a residence or a multi-unit residence, as the case may be."

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"months is the financing of the construction of a residence or residences or a major addition or major improvement to a residence and (2) an agreement with respect to the credit requires that (A) within 32 days after completion of such construction or the date the Registrant estimates in good faith the construction will be completed or (B) upon the expiration of a period of not more than 18 months after the extension of the credit, whichever shall first occur, such action must be taken by the parties as may be necessary to make the terms of the credit conform thereafter with the applicable maximum loan value and the applicable maturity and amortization provisions set forth in 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 the occurrence of one of the events specified in (A) or (B) above; 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 the Supplement thereto.¹⁰

"(c) Short-Term Multi-Unit 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 multi-unit residence or a major addition or major improvement to a multi-unit residence and which is extended to any person other than the owner of the property and has a maturity of not more than 18 months; provided, that this exception 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.

"(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 cer-

¹⁰It 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 a major addition or major improvement to a multi-unit residence. However, see section 5(c)."

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"tifying 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 or multi-unit residence 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 reg-

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"ulation 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 paragraph.

"(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.¹¹

"¹¹It is to be noted that the term 'farm property' as defined in section 2(o) does not include multi-unit residential property; accordingly, the location of multi-unit residential property does not affect the question whether extensions of credit with respect to such property are subject to the regulation."

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"(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, or (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.¹²

"(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.¹³

"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 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

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

¹³It should be noted that in certain circumstances more restrictive terms would be required by Regulation W."

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"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, or (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. 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, 1951.¹⁴

¹⁴For application to three- and four-unit residences, see section 6(o)."

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"(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, or multi-unit residential 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 residential property, a farm residence, a major addition or major improvement to a residence, multi-unit residential property, or a major addition or major improvement to a multi-unit residence; 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 representatives, 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.¹⁵

¹⁵The 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."

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"(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) 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.

"(g) 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.

"(h) 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.

"(i) 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.'

"(j) Enforceability of Contracts.--Nothing in this regulation shall affect the enforceability of any contract.

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"(k) 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.

"(l) 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.

"(m) Extension of Credit for Mixed Purposes.--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.

"(n) Calculation of Maximum Maturity.--In calculating the maximum maturity of credit subject 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.

"(o) Three- and Four-Unit Residences.--Notwithstanding any other provision 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.

"SUPPLEMENT TO REGULATION X

"As amended effective January 12, 1951

"SCHEDULE 1. 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,

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"farm residences, and major additions and major improvements to residences are prescribed as set forth in the following table. In the table, (1) the term 'value' means the value of the residential property, farm residence, or major addition or major improvement, as the case may be, determined in accordance with section 2(i) of the regulation, and (2) the term 'value per family unit' means an amount computed by dividing 'value' by the number of family units in the structure or proposed structure to which the credit relates. Where a major addition or major improvement will change the number of family units, the value per family units 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 is
Not more than \$5,000	90% of value
More than \$5,000 but not more than \$9,000	\$4,500 plus 65% of excess of value over \$5,000
More than \$9,000 but not more than \$15,000	\$7,100 plus 60% of excess of value over \$9,000
More than \$15,000 but not more than \$20,000	\$10,700 plus 20% of excess of value over \$15,000
More than \$20,000 but not more than \$24,250	\$11,700 plus 10% of excess of value over \$20,000
Over \$24,250	50% of value.

"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

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"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, semiannual, 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 are prescribed as set forth in the following table. In the table, (1) the term 'value' means the value of the multi-unit residential property, or major addition or major improvement, as the case may be, determined in accordance with section 2(i) of the regulation, and (2) the term 'value per family unit' means an amount computed by dividing 'value' by the number of family units in the structure or proposed structure to which the credit relates. Where a major addition or major improvement will

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"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.

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

Secretary's note: Advice was received in a letter dated January 9, 1951, that the Administrator of the Housing and Home Finance Agency concurred in the regulation and its terms and that he also concurred in its becoming effective on January 12, 1951.

It was also agreed unanimously that the press statement with respect to the amended regulation to be given to the press on the afternoon of January 11 should be in such form as was approved by Chairman McCabe and Mr. Norton.

The following statement for publication in the Federal Register was approved unanimously:

"2. a. Part 225 is issued by the Board of Governors of the Federal Reserve System, with the concurrence of the Housing and Home Finance Administrator,

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"under authority of the Defense Production Act of 1950, approved September 8, 1950, and Executive Order No. 10161, dated September 9, 1950.

"The purpose of this part is to prescribe appropriate terms in connection with real estate construction credit, including appropriate supporting rules, in order to carry out the purposes and policy of the aforementioned authorities. The principal purpose of this amendment is to broaden the scope of this part by making it applicable to residential real estate credit in connection with three- and four-unit residences and multi-unit residential property. The amendment also makes other changes with the view of providing more workable and effective regulation.

"b. Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operations of the Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof.

"In amending this part and in accordance with the requirements of the aforesaid section 709, there has been consultation with industry representatives, including trade association representatives, and consideration has been given to their recommendations."

Unanimous approval was also given to the following telegram to the Presidents of the Federal Reserve Banks and the managing officers of the Federal Reserve Bank Branches:

"This wire to all Federal Reserve Banks is also being sent to Federal Reserve Bank branches for their information. On assumption that Housing Administrator will concur amended Regulation X to cover multiple unit housing will be given to press on the afternoon of Thursday, January 11, 1951 for release in morning papers of Friday, January 12. Amended regulation will become effective on January 12. Photo offset negatives and page proofs will be mailed or airmailed special delivery tomorrow afternoon to reach your head office on Monday. Please have regulation printed as soon as negatives are received and mail copies to interested registrants to reach them not earlier than,

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"but if possible on, the morning of Friday, January 12. Press release will be wired to you as soon as possible. Should be made clear at any press conference that you may hold that any registrants who do not have copy of regulation on Friday morning can obtain copy at any Federal Reserve Bank or Branch. Please keep information contained in this wire confidential until time of release of press statement."

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, Kansas City, and San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on January 2, and by the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, and Kansas City on January 4, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated December 29, 1950, from Mr. Hilkert, Acting Director of the Division of Personnel Administration, recommending an increase in the basic salary of Rodney H. Van Devanter, personnel technician in that Division, from \$4,600 to \$4,850 per annum, effective January 7, 1951.

Approved unanimously.

Memorandum dated January 4, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Sven Johnson, foreman of laborers in that Division, be granted leave of absence without pay beginning January 29, 1951, for the purpose of reporting for active duty with the United States Naval Reserve, that

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he be granted the benefits outlined in the Board's policy, adopted August 1, 1950, for all employees called for military service, that he be granted one month's unearned salary, and that any accumulated and accrued annual leave remain to his credit until his return from military service.

Approved unanimously.

Letter for the signature of the Chairman to Mr. Stevens, Chairman of the Federal Reserve Bank of New York, reading as follows:

"Your letter of December 29, 1950, in which you refer to the consideration being given to salaries of officers at your bank, has just been brought to my attention.

"The Board will be glad to have the views of your directors in advance and to study the information which you submit in the light of our overall policies with respect to officers' salaries."

Approved unanimously.

Letter to Mr. Stevens, Federal Reserve Agent of the Federal Reserve Bank of New York, reading as follows:

"In Mr. Harris's letter of January 2, 1951, the Board of Governors was advised that, as a result of a general increase in the salaries of employees at the head office as voted by the Board of Directors of the Federal Reserve Bank of New York, the salaries of the employees shown below were increased by \$300 each.

"In accordance with this action, the Board of Governors approves effective November 30, 1950 the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
J. H. P. Farnon	Alternate Assistant Federal Reserve Agent	\$5,648

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<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
E. K. Reynolds	Alternate Assistant Federal Reserve Agent"	\$5,425

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"Replies to the letter dated December 21, 1950, from the Board's Division of Examinations to the officers in charge of examinations at the various Reserve Banks indicate that the dates proposed for holding a conference of representatives of the Bank Examination Departments of the Reserve Banks in Washington, immediately following the 1951 Mid-Winter Trust Conference of the American Bankers Association, would be satisfactory. Accordingly, the Examiners' Conference will be held in the Board's offices in Washington on Thursday, Friday, and Saturday, February 8-10, 1951.

"It is contemplated that both bank examination and supervisory matters will be discussed and it is expected, of course, that each Reserve Bank will be represented by the officer in charge of examinations as well as the Chief Examiner. It will be appreciated if you will advise us as to the names of the representatives of your Bank who will attend the conference and whether you desire us to make hotel reservations.

"The Reserve Banks have been requested to forward suggestions for the agenda and a copy of the agenda will be sent to you when it has been prepared."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks, reading as follows:

"Please have compiled and mail or wire in time to reach the Board by February 1, if practicable, amounts in thousands of dollars, of each item and

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"sub-item 1 to 12, inclusive, reported in Schedule A, loans and discounts, of the December 30 call reports of national and State member banks. Give separate totals for (1) central reserve city national banks, (2) central reserve city State member banks, (3) reserve city national banks, (4) reserve city State member banks, (5) country national banks, and (6) country State member banks. Figures may be estimated for any small banks whose reports are missing or incomplete."

Approved unanimously.

Letter to Mr. Percy J. Ebbott, President, The Chase Bank, Pine Street, Corner of Nassau, New York, 15, New York, reading as follows:

"Reference is made to your letter of December 29, 1950, forwarded through the Federal Reserve Bank of New York, and requesting approval for discontinuance and liquidation of the branch now operated by The Chase Bank in Hong Kong.

"It is understood that suspension of operations under the provisions of Regulation M is not contemplated and it would appear that approval by the Board of Governors would not be required under the law for the discontinuance of the branch. If such action, which appears to lie within the discretion of your Board of Directors, should be taken, it would be necessary to apply for and receive the approval of the Board of Governors for the subsequent establishment and operation of a branch in Hong Kong if desired at any future date."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.

Letter to Honorable Cecil R. King, House of Representatives, Washington, D. C., reading as follows:

"Thank you for your letter of December 27, 1950, which enclosed a letter you had received from

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"Mr. W. A. Gordon, Inglewood, California, regarding this Board's Regulation W--Consumer Credit.

"Mr. Gordon raises an interesting point about the difficulty that Governmental employees may have had during wartime conditions in buying needed automobiles because of the requirements of Regulation W. He observes that during the last war hundreds of Governmental employees were compelled to drive worn out cars with wasteful operating costs because they were unable to meet the down payment and monthly payments required by Regulation W. He is concerned that a similar situation may be developing and suggests an exemption from the regulation for the sale of automobiles for persons engaged in public health, law enforcement and similar essential occupations.

"This appears to be a constructive suggestion and we shall consider it in our continuing study of the provisions of the regulation. There are, of course, difficult administrative problems connected with any provision for exemptions on the basis of the use of an automobile or other listed article. As Mr. Gordon points out, such an exemption would have to be designed so as to prevent evasive practices. Moreover, an exemption of this kind might raise serious problems of discrimination, since the essentialness of an automobile is a relative matter and not readily definable. These and other problems would have to be worked out before such an exemption could be provided, since otherwise it might tend to weaken the effectiveness of the regulation.

"We understand that Mr. Gordon does not feel that such a provision is needed immediately but that it may be desirable if and when wartime shortages return. We believe also that such a provision might be needed later on more than it is under current conditions, particularly since many late model used cars are now available which provide efficient transportation. One of the effects of Regulation W is to make these cars available at substantially lower prices than those prevailing during the summer months. We feel sure you will recognize that the more effective Regulation W can be in limiting the expansion of purchasing power in this time of strong inflationary pressures the more benefits will accrue to these people in the lower income groups who are hard pressed to meet the rising cost of living.

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"We appreciate this opportunity to comment on Mr. Gordon's suggestion and you may be sure that it will be considered fully."

Approved unanimously.

Letter to Mr. Hult, Vice President of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of December 21, 1950, regarding Regulation W and a proposed automobile leasing arrangement presented for your consideration by the First National Bank of Boston.

"The Board agrees with the thought of the First National Bank that 'the whole idea has somewhat the appearance of a circumvention of the regulation and is in direct opposition to what the regulation attempts to accomplish.' Also, on the basis of the facts presented, the Board is of the opinion that the proposed arrangement would be subject to the requirements of Regulation W in the light of the principles stated in S-1199 (W-101) and S-1221 (W-110). Accordingly, the proposed arrangement would be in conflict with the regulation, since its terms would not comply with those applicable under the regulation.

"In general, it appears that the proposed plan is of the general kind which, as indicated in our confidential wire of December 29 on the subject, gave rise to the rulings referred to above."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks, reading as follows:

"In connection with the outline of the enforcement program under Regulation W as forwarded with S-1207 (W-105) of November 21, 1950, it appears that there may be some misunderstanding with respect to the holding of a second disciplinary conference as referred to in Item II-A-2-b.

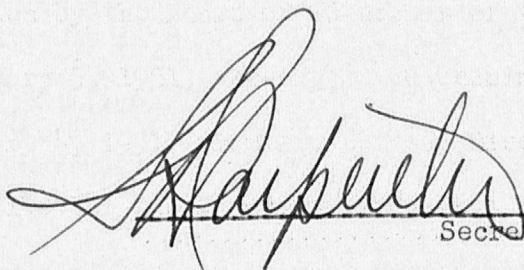
"It was not the intention to suggest that a second disciplinary conference be held in any cases

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"in which it seems unlikely to aid in securing compliance with the Regulation. A second disciplinary conference need not be held except in those instances in which the Reserve Bank feels that it would be likely to serve a useful purpose and, each Reserve Bank should at all times feel free to refer a case to the Board without such a second disciplinary conference if that seems appropriate in the circumstances."

Approved unanimously.



Secretary.