

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3600]
October 10, 1950

REGULATION X

Effective October 12, 1950

RESIDENTIAL REAL ESTATE CREDIT

*To all Persons Engaged in the Business of Extending Real Estate Credit
in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System and the Housing and Home Finance Agency, Office of the Administrator:

For release in morning newspapers
of Wednesday, October 11, 1950

October 10, 1950

Restrictions on residential real estate construction under authority of the Defense Production Act of 1950 and the President's Executive Order No. 10161 of September 9, 1950, were announced today on non-Government-aided private credit, Government-aided loans, and direct Government veteran and farm loans on one and two-family houses.

Credit restrictions on housing loans not insured, guaranteed, or extended by Government agencies are covered under Regulation X issued by the Board of Governors of the Federal Reserve System, with the concurrence of the Administrator of the Housing and Home Finance Agency. Companion restrictions on Government-aided housing finance, on a basis conforming to those applied to other types of private credit, were announced by the HHFA Administrator.

The new regulations will call for down payments ranging from 10% in the \$5,000 and under price range to 50% at \$25,000 and over, with preference for veterans amounting in most cases to 10 percentage points. The regulations are geared to the marketing of housing production of not more than 800,000 to 850,000 new housing units next year.

The regulations on both types become effective Thursday, October 12, 1950. They are designed to help reduce the currently high inflationary pressures by restricting the flow of funds into the mortgage market and through the reduction of new home construction activity next year, to assure that materials and labor required for the defense program will be available when needed.

The regulations apply to virtually all future loans on new construction of one and two-family houses. The restrictions agreed upon, according to Thomas B. McCabe, Chairman of the Board, and Raymond M. Foley, HHFA Administrator, are based on an estimate that, to curb serious inflation in the housing market and to meet presently estimated defense requirements, housing production in 1951 should be reduced about one-third below the current record level of home building, or not more than 800,000 units. They are intended, however, to continue, as far as possible through control of credit, the relative preferences for veterans and the price distribution of housing sought by Congress in its legislative enactments. The situation will be kept under close review to determine whether defense or inflationary developments require later modifications.

The regulations specify maximum amounts which can be borrowed, maximum maturities, and minimum amortization requirements for extensions of credit on residential construction, including the financing of major additions and improvements where the loan amount is more than \$2,500. They do not apply to non-Government-aided loans on construction begun before noon on August 3, 1950, nor to loan com-

mitments made prior to the effective date. Credits secured by new construction as well as credits extended to finance the purchase of homes are subject to the regulations.

For those purchasing homes in the lower price brackets, the percentage down payments required are lower than for higher priced structures, and for veterans using GI loans the down payment requirements are lower at each price level than on other loans. Also, a longer period for repayment is permitted for those buying homes costing \$7,000 or less.

In determining the amount that can be loaned, the lender 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. This provision brings supplementary borrowing, as well as first mortgage loans, within the scope of the regulation. In other words, minimum down payments must be made from the borrower's own funds in connection with extensions of credit on new residential construction and not from the proceeds of supplemental mortgages or personal loans in excess of the permissible loan value.

Down payments and maximum permissible loans for non-Government loans and FHA-insured financing are identical and are calculated on the transaction price which is defined by the regulation as the amount paid or to be paid by the purchaser, exclusive of prepaid items of expense, such as taxes or insurance. Under the regulation, maximum permissible loan amounts, maximum maturities and minimum amortization provisions are specified.

Properties having a value of:	May have outstanding credit of:
More than \$2,500 but not more than \$5,000	90% of the 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
Over \$20,000	\$11,700 plus 10% of excess of value over \$20,000 but not less than 50% of value

To carry out the requirement that the relative credit preferences for veterans be maintained, down payment requirements on loans guaranteed or made by the Veterans Administration are 10% lower than on FHA and non-Government-aided loans in the price range between \$6,000 and \$12,000, with the preference narrowing to 5% in both the higher and lower price levels. The down payments on VA-guaranteed loans, also based on transaction price, are computed as follows:

Value (transaction price)	Minimum down payment
\$5,000 or less	5% of value
More than \$5,000 but not more than \$6,000	\$250
More than \$6,000 but not more than \$9,000	\$250 plus 25% of excess of value over \$6,000
More than \$9,000 but not more than \$12,000	\$1,000 plus 30% of excess of value over \$9,000
More than \$12,000 but not more than \$15,000	\$1,900 plus 55% of excess of value over \$12,000
More than \$15,000 but not more than \$20,000	\$3,550 plus 75% of excess of value over \$15,000
More than \$20,000 but not more than \$24,250	\$7,300 plus 85% of excess of value over \$20,000
Over \$24,250	45% of value

All real estate construction loans are limited to a maximum term of 20 years, except those made on properties valued at \$7,000 or less under a contract which calls for complete amortization of the loan in 25 years by equal monthly, quarterly, semi-annual or annual payments to principal or to principal and interest. However, a loan may be amortized on a basis that provides for annual reduction of principal at a minimum rate of 5% per year of the original amount of the balance, and such loans are exempt from further amortization when the outstanding balance has been reduced to not more than 50% of the value of the property as of the time the credit was extended.

Although the regulation provides that a person must be registered to engage in the business of extending real estate construction credit, all persons engaged in the business will automatically be deemed to be registered for present purposes and no action on their part to secure registration 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 Regulation X, and the regulations on Government-aided housing credit, consultations and meetings were held with representatives of various groups affected. This includes manufacturers of and dealers in building supplies and materials, labor and veterans' and other con-

sumer organizations, banks and trust companies, savings banks, savings and loan associations, and building associations, mortgage bankers, insurance companies, builders, real estate dealers, and others interested in construction and mortgage finance.

The new regulations apply only to residential real estate credit on one and two-family houses. However, consideration is being given to the early issuance of regulations applying to construction credit relating to rental-type projects, non-residential properties, and other real estate credit.

Inquiries in regard to Regulation X should be directed to one of the 12 Federal Reserve Banks and their 24 branches, through which the regulation will be administered.

Instructions to field offices for processing Government-aided housing loans under the new regulations will be issued shortly by the Federal Housing Administration, the Veterans Administration, and the Department of Agriculture in their respective fields.

A copy of Regulation X is enclosed so that you may acquaint yourself with its provisions and determine whether you or a particular transaction involving the extension of real estate credit is subject to the regulation.

Section 4(c) of the regulation provides that 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. One method of showing compliance with this provision where no real estate construction credit is involved is a statement made by the borrower to the effect that the credit in question 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 a major addition or major improvement to a residence). Such a statement, if accepted in good faith by the registrant, will be acceptable if stamped on the face of the borrower's note and the note is thereafter signed by him or, if made by the borrower in a letter, application form, or in any other written form whatever. Forms of Statement of the Borrower are now in process of preparation and copies will be furnished, when available, to interested persons.

Any inquiries you may have concerning Regulation X should be addressed to this Bank at the Federal Reserve P. O. Station, New York 45, N. Y.

Additional copies of this circular and of the regulation will be furnished upon request.

ALLAN SPROUL,
President.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

RESIDENTIAL REAL ESTATE CREDIT



REGULATION X

Effective October 12, 1950



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, or a major addition or major improvement to an existing residence, 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. 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

Effective October 12, 1950

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, 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 real estate credit if, during the current calendar year or during the preceding calendar year, he extends or has extended real estate credit more than three different times and such extensions of credit, during the current calendar year or during the preceding calendar year, aggregate more than \$25,000. For the purpose of determining whether a person is engaged in extending real estate credit, real estate credit shall be deemed to include not only "real estate construction credit", as hereinafter defined, but also credit with respect to any real property whether or not there is any new construction thereon, and whether or not such credit is extended, insured, or guaranteed by the United States or any agency thereof, 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 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."

(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 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 a major addition or major improvement to a 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 any 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

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."

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 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 an enlargement, reconstruction, or other alteration to an existing structure, or any other addition or improvement which becomes or is to become physically attached to and a part of the structure, if the cost or estimated cost of such addition or improvement exceeds \$2,500.

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

(i) The "*maximum loan value*" of any property 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, "value" shall be the cost or estimated cost 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 prior to such 12-month period, or if any part of such property has been acquired by gift, exchange, or inheri-

tance, "value" shall be the appraised value as determined in good faith by the Registrant;

(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.³

(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 which are customary under local practices. It does not include any prepaid charges, or any accrued rents which will be paid to the vendee.

(k) "*Residence*" means any structure at least one-half of the floor space of which is used, serving or designed for dwelling purposes, if such structure does not include more than two family units. Houses connected by common walls and commonly known as "row houses" or "semidetached houses" shall be considered separate structures.

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

(m) "*Farm property*" means any real property, located outside of urban areas, which is principally used for the production of crops, livestock or other agricultural commodities.

SECTION 3. GENERAL REQUIREMENTS AND REGISTRATION

(a) **General Requirements.**—No person engaged in the business of extending real estate credit 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.

³The 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.

(b) **Registration.**—Every person engaged in the business of extending real estate credit 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 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 (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 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 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 on which there is new construction (which is a residence or a major addition or major improvement to a 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 the effective date of the regulation 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.

(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 property (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 property (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) **Statement of the Borrower.**—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. If the Registrant 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 a major addition or major improvement to a residence), such Statement shall be deemed to be compliance with the requirements of this paragraph.

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, or (C) a major addition or a major improvement to a 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, or the major addition or major improvement to a 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 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 obtainable at any Federal Reserve Bank or branch.

SECTION 5. EXEMPTIONS AND EXCEPTIONS

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

(b) **Short-Term Construction Credits.**—The prohibitions 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, 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 the financing of the construction of a residence or residences or a major addition or major improvement and (2) an agreement with respect to the credit requires that upon (A) the completion of such construction or (B) 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 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.

(c) **Disaster Credits.**—The prohibitions of this regulation shall not apply to any extension of real estate construction credit with respect

to real property in any area in which the Federal Reserve Bank of the district may declare that an emergency exists because of a flood, fire or other disaster affecting a substantial number of the inhabitants of the stricken area. This exemption with respect to any area so designated shall apply only to extensions of credit of such character and during such period as the Federal Reserve Bank may prescribe.

(d) **Medical Expenses, Etc.**—The prohibitions 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 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 destroyed or substantially damaged by flood, fire or other similar casualty.

(f) **Contracts to Sell.**—The prohibitions of this regulation shall not apply to any 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 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 any Registrant with respect to the new construction that may be specified in such certificate shall be exempt from the prohibitions of this regulation.

(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.**—The prohibitions of this regulation shall not apply to any 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 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.

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 Regis-

trant 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 provisions of this regulation shall not apply to or affect any credit extended prior to the effective date of this regulation, 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 which has been entered into in good faith by the parties and in reliance upon which the prospective borrower has taken specific action prior to the effective date of the regulation, if the Registrant within 30 days after the effective date of this regulation 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 prior to the effective date of the regulation.

(c) **Real Property Outside the United States.**—The prohibitions of this regulation shall not 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 shall preserve for a period of three years after each extension of credit such accounts, correspondence, memoranda, papers, books, and other records, or photostats thereof, as are relevant to establishing whether such person is engaged in the business of extending real estate credit; whether each credit extended is or is not real estate construction credit with respect to residential property, a farm residence, or a major addition or major improvement to a 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 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.⁴

(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 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 and the costs of acquisition through foreclosure.

(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.

⁴The 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.

(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.

SUPPLEMENT TO REGULATION X

Maximum Loan Value.—For the purposes of Regulation X, maximum loan values for all residential property, farm residences, and major additions and major improvements are prescribed as set forth in the following table. 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 (determined as provided in section 2 (i) of the regulation) is	The maximum loan value is
More than \$2,500 but not more than \$5,000	90% of the 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
Over \$20,000	\$11,700 plus 10% of excess of value over \$20,000 but not less than 50% of value

Maturity.—For the purposes of Regulation X the following maturity requirements are prescribed: No 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: With respect to every 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.