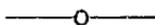


# THE BLUE BOOK

(2d Ed.)

A BRIEF ACCOUNT OF THE LENDING OPERATION OF  
HOME OWNERS' LOAN  
CORPORATION

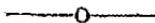
WITH SPECIAL REFERENCE TO  
THE EXAMINATION OF LAND TITLES  
AND  
THE CONDUCT AND CLOSING OF REAL ESTATE LOANS



Prepared Under Direction of the  
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*By*

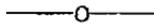
C. S. SHADE, *Principal Attorney*



WASHINGTON  
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## FOREWORD

In the organization and direction of a staff of nearly 1,000 lawyers employed for their full time on a salaried basis and about 9,000 additional lawyers employed on a fee basis for title examination and loan closing, in addition to more than 3,000 abstract companies and 300 title insurance companies, it has appeared to be helpful to prepare and now to revise a short statement of the organization, purposes, and procedures of the Legal Department of Home Owners' Loan Corporation. Every reasonable effort has been made by the Legal Department of the Corporation to accomplish its purposes without unnecessary directions from Washington and by the imposition of the simplest possible rules and regulations.

Fee attorneys and their employees, abstract and title company officials and their employees have labored most faithfully both day and night in their contribution to the task of refunding more than 1,000,000 individual mortgages on the homes of that great number of families in distress in the 48 states and 4 territories. The legal title examination and loan closing work for Home Owners' Loan Corporation has been accomplished probably more economically than such work was ever done before, and in the shortest possible time. Very little negligence under the circumstances of this operation has been discovered, and it is a high tribute to those concerned that no case is known of the misapplication of funds by the lawyers, abstract companies, and title companies concerned although each of these loans has been separately settled in their offices over their desks by the distribution of miscellaneous payments to the mortgagees, lienholders, tax collectors, contractors, and others, and in nearly every county of the United States. I take great pleasure in paying this personal tribute and expressing this personal word of my very great appreciation for the diligent service, effective work, and fidelity of this large group who have had so large a part in this successful emergency relief.

The Corporation in recent months has been recording more than 40 million dollars in loans per month and will continue its lending operations based upon applications already on file to June 13, 1936, and many legal problems will present themselves. The legal staff of the Corporation has had and will for some months have great responsibility in securing first mortgages on good titles by proper legal procedure and the proper disbursement of funds, but it has before it an equally great task in the future operation of the Corporation, its loan servicing program, the foreclosure of mortgages where necessary, and its property servicing program, including the resale of real estate acquired. I hope that this booklet will be helpful to us in understanding our task better and in rendering better service.

HORACE RUSSELL,  
*General Counsel*  
*Federal Home Loan Bank Board*

Washington, D. C.  
December 19th, 1935

# THE BLUE BOOK

## *Introductory*

### *Purpose*

This booklet is designed to present a brief account of the lending operations of the Home Owners' Loan Corporation, with special reference to the examination of land titles and the legal aspects of the conduct and closing of its loans. Attention will also be given to the organization of the Corporation and of its Legal Department, and an attempt will be made to indicate the extent of the relief which the Corporation may afford its borrowers under the law.

The Blue Book was first issued in November, 1934. It was furnished to each attorney and title company approved by the Corporation as hereinafter mentioned and was designed for use as a guide in the examination of land titles and the conduct and closing of the Corporation's loans.

This booklet supersedes the first edition of *The Blue Book*. It is intended to serve as a reference book for those persons who are now or will hereafter be engaged in examining titles and in closing loans in the field on behalf of the Corporation and under the supervision of its Legal Department.

Though this booklet is addressed primarily to the Corporation's legal personnel and to those other persons operating in the field as mentioned above, an effort will be made to free this discussion from technicalities and statistics as nearly as may be, in order that it may prove to be of some interest to the homeowner himself, for whose benefit the Corporation was created.

### *Act and Regulations*

The Corporation's procedure with respect to title examination and loan closing has now become crystallized. Excerpts from the Corporation's manuals of rules and regulations governing the examination of land titles and the conduct and closing of its loans are set out in Appendix B of this booklet

for the guidance and assistance of title examiners and loan closers. Excerpts from the Home Owners' Loan Act of 1933, as amended, will be found in Appendix A, while Appendix C consists of a skeletonized chart of the organization of the four Legal Departments which function at the Home Office under the direction of the Federal Home Loan Bank Board.

### *Estimate and Account of Operations*

It is estimated that the Corporation, upon completion of its lending operations under its present program, will have saved the homes of more than a million American families from foreclosure by its investment of upwards of \$3,000,000,000 in those homes. Nevertheless, the plan and scope of the Corporation's operations and the purposes and philosophy which underly the legislation creating it are but little understood generally, and for this reason a brief and very general statement of these matters may not be inappropriate at this place.

# PART I

## Chapter 1

### THE HOME OWNERS' LOAN CORPORATION

#### *The Original Act*

The Home Owners' Loan Act of 1933 became law on June 13 of that year by action of the Congress and the approval of President Roosevelt. Under the terms of the Act, the Federal Home Loan Bank Board, which until that time had been authorized to make direct loans to homeowners in eligible cases, was invested with power to organize a corporation, to be known as the Home Owners' Loan Corporation, and the members of that Board constitute its board of directors in the conduct of its business. The Act has been twice expressly amended by the Congress. The first amendment thereof was approved on April 27, 1934, while the second was approved on May 28, 1935. The Act was also amended in certain respects by adoption of the National Housing Act, approved June 27, 1934. The following observations have reference to the Act as it stood on January 1, 1936.

#### *Purpose of Act*

The Act declares, in substance, that the chief business of the Corporation is to provide emergency relief to distressed homeowners in eligible cases by refinancing, upon long terms and at a reasonable interest rate, those encumbrances upon their homes which cannot be elsewhere or otherwise refinanced. The philosophy of the Act lies at the base of government. It may be said to be that the general welfare is promoted by encouraging the thrift of the Nation's homeowners and by protecting them and their families in the ownership and occupancy of their homes, despite adverse economic conditions which are beyond the control of the homeowner and which temporarily jeopardize that ownership and occupancy.

### *Capital Stock*

The Act authorizes the Corporation to issue its capital stock to a maximum amount of \$200,000,000 and directs that the Secretary of the Treasury shall subscribe, on behalf of the United States, for so much of that capital stock as may be issued. Dividends on this stock may be paid from corporate earnings, at the discretion of the board of directors.

### *Corporate Bonds*

It cannot be too strongly emphasized that Home Owners' Loan Corporation is designed to be self-supporting and self-liquidating, and that the funds invested by it are acquired solely by the sale and exchange of its own bonds. The bonds issued by the Corporation may not exceed its assets. These bonds may not bear maturity dates later than 1952, nor may they bear interest at a rate in excess of 4 per cent per annum. Principal and interest on all bonds issued pursuant to the provisions of the said amendment of April 27, 1934, are unconditionally guaranteed by the United States, and they are tax-exempt, except as to surtaxes and estate, inheritance and gift taxes. The Act directs the Corporation to retire its bonds and stock as rapidly as its resources will permit, and all payments made upon the principal of the Corporation's loans must be used to retire its bonds. Any surplus remaining after the Corporation's business has been wholly liquidated must be paid into the Treasury of the United States.

### *Lending Process Terminated*

As said, the Corporation is engaged in the business of saving the homes of the distressed homeowners of America, within the limitations imposed by the amended Act. The provisions of the amended Act, which authorize the Corporation to make loans for this purpose until June 13, 1936, and the resumption of operations by private lending agencies which has been brought about by rapidly improving economic condi-

## HOME OWNERS' LOAN CORPORATION

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tions, rendered it advisable that the Corporation discontinue the acceptance of loan applications to permit it to conclude its lending operation seasonably. Accordingly, June 27, 1935 was set as the day and midnight of that day as the hour, after which no further applications for loans or for the reconditioning of home properties would be accepted by the Corporation. As of January 23, 1936, a grand total of 1,884,323 applications for loans had been received, though only 143,637 of these were received subsequent to May 28, 1935, the date of the latest amendment of the Act. As these lines are written, the Corporation is engaged in investigating and disposing of these applications as rapidly as is possible in view of its reduced personnel.

### *Operations Restricted*

It should be understood that the Corporation does not enjoy in the conduct of its business the freedom of action of the private lending agency. Each loan granted by it must conform in every respect not only to the principles of sound mortgage lending practice but also to the requirements of the amended Act and of the rules and regulations promulgated by the Board in pursuance of the Act. Thus, the extent of the relief granted by the Corporation in a given case is rigidly limited, as are the obligations which may be refunded, and the types of security which may be accepted by it are limited as well. Likewise, each case must be thoroughly investigated before a loan may be granted, in order to determine the eligibility under the law of the applicant and his home property. And these matters and the action taken therein by the Corporation's several field offices are again closely scrutinized in one of its eleven Regional Offices by trained examiners after the loan is closed, for the purposes of correcting possible defects therein and assuring that the loan is in every respect eligible and regular.

### *Eligibility of Applicant*

To be eligible for a loan from the Corporation, an applicant must be unable to carry or refund the indebtedness upon his home property, and he must have been in involuntary default as to that indebtedness on June 13, 1933, the date of adoption of the original Act. However, if the applicant can show, to the satisfaction of the Corporation, that he became involuntarily in default as to such indebtedness after June 13, 1933 because of unemployment or economic misfortune or conditions beyond his control, he will be deemed to be eligible. Further, the applicant must be of good moral character and must have a past record for honesty and integrity.

From this it will be seen that the Corporation's business is to assist those homeowners who would not require or request its assistance but for the temporary disruption and dislocation of their financial affairs by economic forces which they are powerless to control. It would manifestly be idle to grant this relief to an applicant who is in such hopeless distress, because of illness, advanced age or other cause, that he has no present or prospective income whatever to enable him to repay the loan, since the relief afforded to such an applicant could be only temporary in character. In such cases, it is required that responsible parties must join with the applicants in executing their notes to the Corporation,—a procedure which is indicated by ordinary prudence as well as by the purposes of the Act. An applicant who has been granted one refunding loan is ineligible for another, but he may have one refunding loan and one loan for the purpose of reconditioning or repairing his home property, as hereinafter mentioned.

### *Eligibility of Security*

As security for its loans, the Corporation may accept only real property owned by the applicant in fee simple or the applicant's interest in real property held by him under a re-

## HOME OWNERS' LOAN CORPORATION

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newable lease for not less than 99 years or under a lease having not less than 50 years to run from the date of execution of the Corporation's lien instrument. The property must be improved with one or more dwellings, though the property is ineligible if the dwellings thereon are designed for use by more than four families or if the land and improvements are appraised for more than \$20,000 by the Corporation. It must be shown that the property is the bona fide home of the applicant, though he need not actually occupy the property, since it is recognized that the very distress of the applicant frequently prohibits him from occupying his home and forces him to lease or rent it and to seek cheaper quarters, and since many applicants have lost the right to occupy their homes, through foreclosure or otherwise, before the Corporation's relief was made available. However, if he does not actually occupy the property as his home, it must be shown beyond all reasonable doubt that the property is in fact his bona fide home and that he is only temporarily absent from it for good reason. In proper cases, the Corporation may accept as security home property which is designed for partial business use or which includes some farm land, but in the former case it must be shown that the business use is merely incidental to the use of the property as a home or the case must be approved by the Corporation's Loan Review Division at Washington, and in the latter it is required that the applicant be shown to draw his main livelihood from a source other than the farm lands, in order to render such properties eligible. Property used for illegal or immoral purposes is, of course, ineligible.

### *Refunding in Bonds*

As said above, the Corporation's bonds are used in the bulk of its refunding operations, and such cash as is advanced for the accounts of its borrowers is acquired solely through the sale of its bonds. In the first  $2\frac{1}{4}$  years of its operations, the Corporation disbursed its bonds to the total face amount of \$2,699,085,113, while in the same period it disbursed in

connection with all loans only \$62,914,486 in cash. It should be understood that these funds are not advanced to the borrower in the ordinary case but are disbursed by the Corporation, for the account of the borrower, directly to the parties to whom the borrower is indebted.

### *Extent of Relief*

In eligible cases, the Corporation may advance its bonds and cash for the purposes following:

(a) To refinance, in bonds or cash in the cases hereinafter mentioned, such indebtedness of the applicant as constitutes a lien or charge upon his home property;

(b) To pay, in cash, taxes and assessments upon the home property;

(c) To pay, in cash, the expense of necessary maintenance and repair of the home property;

(d) To redeem or recover, in exchange for bonds, homes lost by the applicant through foreclosure or forced sale or by voluntary surrender of the property in lieu thereof;

(e) To pay, in cash, the expense of rehabilitating, modernizing, rebuilding or enlarging the home property;

(f) To pay, in cash, the expenses incidental to the making of the loan; and

(g) To make cash adjustments, not exceeding \$25, where the face value of the bonds, plus accrued interest thereon, is less than the amount of the demand of the holder of the refunded obligation or the owner of the home property redeemed or recovered for the applicant.

Bonds and cash are advanced for these purposes subject to numerous restrictions imposed by the amended Act and by the Corporation's rules and regulations. While any complete enumeration of these restrictions is impossible at this place, the mention of a few of them may be of interest.

### *Eligibility of Refunded Debt*

As said above, the refunding loans of the Corporation

## HOME OWNERS' LOAN CORPORATION

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constitute the great bulk of its lending operations. In order to be eligible for refinancing by the Corporation, the obligation must have been in existence and must have constituted a lien or charge upon the home property prior to June 13, 1933, the date of enactment of the original Act. Not only obligations secured by the ordinary mortgage or deed of trust are eligible, but judgments, security deeds, purchase and sale agreements and the like may also be refunded. In a few exceptional cases oral agreements have been refunded as well, where the parties had in good faith acted in pursuance of the oral agreement to such an extent that an equity court would have enforced the agreement upon petition of either party. In this connection, the test of eligibility may be said to be that performance of the obligation by the applicant must be a condition precedent to the continuance of his right to own and occupy the home property.

Full information of the amounts claimed by the creditor is obtained, and every effort is made to induce him to scale down his demand for the benefit of the debtor. If and when a mutually satisfactory adjustment has been reached, the creditor consents in writing to accept, within a specified time, the Corporation's bonds or cash in exchange for the borrower's obligation. When the Corporation's loan is closed and disbursed and the necessary releases of the obligations refunded have been placed on record, an authorization form is delivered to the creditor, which entitles him to receive bonds of the Corporation in the amount of his demand, in liquidation of his claim. After the loan is closed, these bonds are forwarded by the United States Treasury to the approved depository designated by the creditor, which depository delivers the bonds to the creditor upon his surrender of the authorization therefor. The transaction is thus completed, so far as the creditor is concerned. The manner in which the Corporation is reimbursed by its borrower for the bonds and cash advanced by it will be hereinafter described in some detail.

### *Loan Limits*

Where bonds are used to refund the obligation, the aggregate of bonds and cash advanced may not exceed \$14,000, or 80% of the value of the home property as determined by the Corporation, whichever sum is the smaller. In the relatively few cases in which the creditor has declined to accept the Corporation's bonds, the obligation held by him may be refunded in cash, but the total loan may not exceed 40% of the value of the home property as determined by the Corporation. The Corporation may also make cash loans upon homes which are otherwise unencumbered for the purposes of paying taxes and assessments and providing for necessary maintenance or making necessary repairs, or for any of these purposes, but such a loan may not exceed 50% of the value placed upon the home property by the Corporation. The Corporation may also make cash loans of several classes for reconditioning the home property, as is hereinafter mentioned.

### *Taxes*

It is required that all taxes upon the home property which are payable (i. e., which can be paid) at the close of the loan shall be then paid. If the applicant is himself unable to pay them, then the Corporation may make such payment in cash and include in the loan the amounts so paid. In cases where the time for payment of taxes has been extended by statutory moratoria, the tax need not be paid, but the amount to be lent to the applicant must be reduced by the amount of such outstanding taxes, thus affording a degree of protection to the Corporation against the future payment of such taxes in the event the borrower should default in their payment. In other cases, though taxes upon the home property may be legally due or even delinquent, it may be impossible to pay them at the close of the loan, because of delay by the taxing authority in fixing their amount or for other reason. In such cases, it is required that a sum estimated by the

## HOME OWNERS' LOAN CORPORATION

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taxing officials to be sufficient to pay such taxes shall be impounded by the Corporation out of the loan proceeds when the loan is closed, and such impounded sum is used to pay such taxes immediately when they can be ascertained and paid.

### *Assessments*

All assessments against the home property, whether for public improvements or other purposes, which are due and payable at the close of the loan should be paid by the applicant, but if he is unable to pay them, cash may be advanced by the Corporation for that purpose and included in the amount of the loan. However, if such assessments are not legally due when the loan is closed, even though they could then be paid, it is not required that payment of them be then made. In such cases, the amount to be lent to the borrower must be reduced if it appears that the combined taxes and assessments borne by the home property for any year during the term of the loan will exceed 3% of the value set upon the home property by the Corporation. Such excess assessments are computed for each year during the term of the loan, and the amount of the loan is reduced by the aggregate of excess assessments only during the full term of the loan, thus again affording some protection to the Corporation against the future payment of such assessments, as in the case of taxes extended by statutory moratorium. For details concerning the Corporation's tax and assessment procedure, the reader is referred to Appendix B of this booklet.

### *Maintenance and Repairs*

If, in the opinion of the Corporation, it is necessary to make repairs of the home property or to perform maintenance work thereon in order to render it reasonably comfortable as a home or to retard deterioration, and if the applicant is unable to pay for such work, the Corporation may in proper cases advance cash for those purposes and include in the loan the amounts so advanced. Such work is done by parties selected

by the applicant upon the basis of competitive bids, but the completed work must be approved by the Corporation and all bills for labor and materials must be paid, in order to assure that no liens will thereafter attach to the home property by reason of the claims of laborers, contractors or materialmen. These precautions are taken not only to protect the interests of the Corporation but for the protection of the homeowner as well.

### *Redemption and Recovery*

In many cases, the applicant has lost his home, through foreclosure or forced sale or by voluntary surrender of the home property in lieu thereof, before the relief afforded by the Corporation could be made available to him. If the home was thus lost subsequent to January 1, 1930, the amended Act permits the Corporation, in proper cases, to redeem or recover such homes for the applicant by issuing its bonds or cash to the present owner of the property. The amount advanced by the Corporation to the titleholder for this purpose is limited, however, to the amount invested in the property in good faith by the titleholder at the time he acquired the same, plus actual advances made by the titleholder for taxes, insurance and improvements on the property. Ordinarily, a home may be redeemed or recovered only for the person who lost it in one of the ways set out above, but if the person who lost the home is deceased, it may be recovered for his heirs, if they were bona fide occupants of the home property at the time it was lost.

### *Reconditioning*

In addition to the maintenance and repair work mentioned above, the Corporation may advance cash in proper cases for the purposes of rehabilitating, modernizing, rebuilding and enlarging homes. As in the case of maintenance and repair work, the performance of such reconditioning work must meet the Corporation's requirements and must be ap-

## HOME OWNERS' LOAN CORPORATION

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proved by it, and all bills for labor and materials must be fully paid at the completion of the work and proper receipts and releases taken. This class of relief constitutes the only exception to the rule that an applicant who has obtained one loan from the Corporation is ineligible for another, for advances may be made for reconditioning a home after an original loan has been placed upon the home property by the Corporation. Such a subsequent reconditioning loan also constitutes the only case, aside from those presented above in connection with taxes and assessments, in which the Corporation may accept other than first lien security for its loan. Advances for reconditioning work may be secured by a lien upon the home property which is junior only to the Corporation's first lien thereon, acquired in connection with a loan previously placed by it upon the same home property, or, in cases where the advance is to effect necessary repairs not in excess of \$300 and where the Corporation has already acquired a first lien upon the home property, the transaction is effected under a simplified procedure prescribed by the Board in such cases.

### *Loan Terms*

The terms upon which the Corporation's loans are made are prescribed by the amended Act. They must be amortized over a period of not longer than 15 years immediately following the date of close of the loan. The great bulk of the loans included in the Corporation's portfolio are 15-year loans, though in some cases loans are made for shorter terms where it appears that the improvements on the home property are such that they will not constitute adequate security for the amortizing debt over the full 15-year period. Nearly all of the Corporation's loans amortize monthly, and accrued interest thereon is payable monthly with principal, but in exceptional cases loans may be made to amortize quarterly, semi-annually or even annually, with accrued interest payable with principal installments. The interest charge is 5% per annum in all cases, except in the case of a refunding in

cash, when an interest charge of 6% per annum is made. Prepayments on loans may be made by borrowers at any time, and any indebtedness owing to the Corporation from its borrowers may be paid at any time in the Corporation's bonds at their face value.

### *Incidental Charges*

Charges for appraisal, character report, title examination and loan closing are made at uniform rates within each jurisdiction and are paid by the borrower. These services are performed by persons or agencies approved by the Corporation.

The charges actually made by these persons for these services constitute all incidental charges paid by the borrower in connection with his loan, in the ordinary course and where reconditioning is not involved, excepting necessary fees for recording and for abstract or title insurance where required. Of course, no bonus of any kind is paid by any person in connection with the loan.

### *Evidencing and Securing Loans*

The borrower's loan from the Corporation is evidenced and secured by such instruments as are ordinarily accepted by the better class of private money lenders to evidence and secure real estate loans in the several localities in which the Corporation operates. Though the Corporation is authorized to extend its relief in 53 jurisdictions, which include the 48 States, the District of Columbia and the Territories of Alaska, Hawaii, Puerto Rico and the Virgin Islands, it has as yet placed no loans in the Territory last named. The Corporation's loans are generally evidenced by promissory notes, though bonds are used where this is the local practice. In 42 of the jurisdictions in which the Corporation operates, it accepts mortgages to secure its loans, in 9 it accepts deeds of trust and in one it accepts a security deed. All of these instruments are written in English, save in Puerto Rico, where the mortgage is in the Spanish tongue, while the note is drafted in English and is interlined with the Spanish equivalent.

## Chapter 2

# ORGANIZATION

At this point it may be useful to review briefly the present organization of the Corporation as a going concern, in order to gain some idea of the progress made since its beginning and of the ramifications of the largest money-lending institution in history.

### *Home Office*

This organization has its roots in Washington. As said, the members of the Federal Home Loan Bank Board constitute the Board of Directors of the Corporation. The Board has established in the Home office in Washington a headquarters staff consisting of a General Manager, a General Counsel and other heads of Departments and Divisions, as well as incidental services. There are five deputies and six assistants to the General Manager. An Assistant General Manager is in charge of each of the six Districts mentioned below. The Legal Department of the Corporation, both in Washington and in the field, is under the general supervision and control of the General Counsel and the direct supervision and control of an Associate General Counsel.

### *Regional Offices*

In the interest of facilitating administration, the 52 jurisdictions in which the Corporation now operates have been grouped into six Districts, each of which is in charge of an Assistant General Manager at the Home office, and these six Districts have been divided into eleven Regions. In each Region, a Regional office has been set up. Regional offices now operate in the following cities, serving the Regions indicated below:

Region 1A—BOSTON, serving Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

Region 1B—NEW YORK, serving Connecticut, New Jersey and New York.

## THE BLUE BOOK

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Region 2A—BALTIMORE, serving Delaware, the District of Columbia, Maryland, Pennsylvania and Virginia.

Region 2B—CINCINNATI, serving Ohio and West Virginia.

Region 3A — ATLANTA, serving Alabama, Georgia, North Carolina, Puerto Rico, South Carolina and Florida.

Region 3B — MEMPHIS, serving Arkansas, Kentucky, Louisiana, Mississippi, Missouri and Tennessee.

Region 4A—CHICAGO, serving Illinois and Wisconsin.

Region 4B — DETROIT, serving Indiana and Michigan.

Region 5A—OMAHA, serving Colorado, Iowa, Kansas, Minnesota, Nebraska, North Dakota and South Dakota.

Region 6—SAN FRANCISCO, serving Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington and Wyoming.

With some variations in detail, the organization of each Regional office duplicates that of the Home office, and all of the Corporation's business for the Region served is transacted through it, the Home office exercising an advisory and general supervisory function as to the Regional offices. Each Regional Legal Department is in charge of a Regional Counsel, who functions under the direct administrative and professional supervision and control of the General Counsel.

### *State Offices*

A central office has been set up in each State and Territory in which the Corporation operates, as well as in the District of Columbia. The organization of these offices of necessity differs in certain respects from that of the Home

## ORGANIZATION

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and Regional offices, due to the difference in function. Each head of a Department in these offices reports to his immediate superior in the Regional office. The State and Territorial Legal Departments are in charge of State or Territorial Counsel, who are under the immediate administrative and professional supervision and control of the Regional Counsel. Such central offices now operate in the following cities:

|                     |                      |                      |
|---------------------|----------------------|----------------------|
| Birmingham, Ala.    | Portland, Me.        | Portland, Ore.       |
| Phoenix, Ariz.      | Baltimore, Md.       | Philadelphia, Pa.    |
| Little Rock, Ark.   | Boston, Mass.        | San Juan, P. R.      |
| Los Angeles, Calif. | Detroit, Mich.       | Providence, R. I.    |
| Denver, Colo.       | St. Paul, Minn.      | Columbia, S. C.      |
| New Haven, Conn.    | Jackson, Miss.       | Sioux Falls, S. Dak. |
| Wilmington, Del.    | St. Louis, Mo.       | Nashville, Tenn.     |
| Washington, D. C.   | Great Falls, Mont.   | Dallas, Tex.         |
| Jacksonville, Fla.  | Omaha, Nebr.         | Houston, Tex.        |
| Atlanta, Ga.        | Reno, Nev.           | San Antonio, Tex.    |
| Honolulu, T. H.     | Manchester, N. H.    | Salt Lake City, Utah |
| Boise, Idaho        | Newark, N. J.        | Rutland, Vt.         |
| Chicago, Ill.       | Albuquerque, N. M.   | Richmond, Va.        |
| Indianapolis, Ind.  | New York, N. Y.      | Seattle, Wash.       |
| Des Moines, Iowa    | Salisbury, N. C.     | Charleston, W. Va.   |
| Topeka, Kan.        | Fargo, N. Dak.       | Madison, Wis.        |
| Louisville, Ky.     | Columbus, Ohio       | Casper, Wyo.         |
| New Orleans, La.    | Oklahoma City, Okla. |                      |

### *District Offices*

Each State or Territorial Manager is directly responsible to his Regional Manager for the proper and efficient discharge of the duties and responsibilities of his office. The jurisdiction of State and Territorial offices includes, in nearly every case, District offices located through the State or Territory, according to the volume of loans placed in the locality or the size of the territory to be served. Thus, Missouri has four District offices, at St. Louis, Kansas City, Springfield and Moberly, while Montana has none. Each District office is under the administrative supervision of a District Manager, who reports directly to his State Manager, and the District Legal Department is in charge of a District Counsel under the supervision of the State Counsel. In some localities where

the loan load is particularly heavy Subdistrict offices were also set up, though most of these have since been discontinued.

### *Organization Exemplified*

Michigan may be taken as an example of the Corporation's organization. District offices are located in that State at Battle Creek, Detroit, Grand Rapids, Marquette and Saginaw. These report to the Michigan State office at Detroit, which in turn is supervised by the Regional office, also in Detroit. The Detroit Regional office is under the general supervision of the Home office at Washington.

### *The Legal Department*

Since this discussion is chiefly concerned with the activities of the Corporation's Legal Department, something should be said at this point concerning its organization. The organization of the General Counsel's staff in the Home office at Washington is typical of that of the Regional Legal Departments.

### *Function*

The function of the Legal Department is to render to the Board and to the other Departments of the Corporation such legal services and legal advice as may be necessary to the proper conduct of the Corporation's affairs. These services include the preparation of legal opinions, the preparation and promulgation of all legal regulations and procedure, supervision of the examination of land titles for the Corporation and of the closing of its loans, the examination of the Corporation's loans to determine their legal regularity, the preparation of all necessary legal instruments and forms, supervision and direction of the conduct of all necessary litigation, including foreclosures, disposition of all claims asserted by or against the Corporation, the general supervision of those branches of the Legal Department in the field, and, in short, the supervision and conduct of all of the Corporation's affairs

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which are legal in their nature, as distinguished from administrative and managerial. The responsibility of the Legal Department is coextensive with its authority.

### *General Counsel*

The General Counsel to the Federal Home Loan Bank Board is also the Corporation's General Counsel. He is likewise in charge of all other legal matters for the Board, including those pertaining to Federal Home Loan Banks, Federal Savings and Loan Associations and the Federal Savings and Loan Insurance Corporation. However, the Legal Department of Home Owners' Loan Corporation is under the direct control of an Associate General Counsel, who functions subject to the supervision of the General Counsel and the Board.

### *Legal Divisions*

The Legal Department is divided into three main Divisions,—namely, the Advisory, the Litigation and the Examining and Servicing Divisions. Each Division is under the direction of a Division Head, who reports directly to the Associate General Counsel in charge of the Department.

### *Advisory Division*

The Advisory Division is charged with the duty of furnishing such legal advice, opinions and interpretations as are required in the conduct of the Corporation's affairs. It handles all legal matters which are not within the province of the Litigation or the Examining and Servicing Divisions and effects liaison for the Department. It consists of the Finance, Audit, Accounts, Briefs and Regulations Sections.

### *Litigation Division*

The Litigation Division is divided into four sections, as follows:

1. The General Litigation Section, which supervises the handling of miscellaneous actions and litigation to which the Corporation is a party or in which its interests are involved

and all other matters involving present or prospective litigation which are not properly referable to any other Section of the Division.

2. The Criminal Section, which investigates all criminal offenses against the Corporation and procures the institution and assists in the conduct of prosecutions therefor in proper cases.

3. The Foreclosure Section, which supervises the institution and conduct of necessary foreclosure actions on behalf of the Corporation and the sales of its borrowers' property in consequence thereof.

4. The Claims Section, which supervises the disposition of all personal injury and tort claims against the Corporation, including claims of employees for compensation under Federal or State law.

### *Examining and Servicing Division*

The Examining and Servicing Division consists of five sections, as follows:

1. The Examining Section, which is charged with the duty of supervising the examination of land titles and the closing of the Corporation's loans in the field, as well as the duty of determining the legal regularity of those loans when closed.

2. The Loan Service Section, which furnishes legal service and advice to the Loan Service Division of the General Manager's office and supervises the legal aspects of the servicing and collection of the Corporation's loans until repayment and discharge of the Corporation's lien or until reference to the Litigation Division for foreclosure or other legal action.

3. The Property Service Section, which furnishes legal service and advice to the Property Management Division of the General Manager's office in connection with the sale, rental or other disposition of real property acquired by the Corporation as an incident of its operations, by foreclosure or otherwise.

## ORGANIZATION

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4. The Tax Section, which is charged with the duty of protecting the Corporation from loss by reason of non-payment of taxes, assessments and other recurring liens and charges of like nature upon property accepted by it as security or acquired by it through foreclosure or otherwise.

5. The Reconditioning Section, whose function it is to prevent the attachment of liens as for labor performed, services rendered or materials furnished in connection with reconditioning work upon property accepted by the Corporation as security or acquired by it by foreclosure or otherwise and to render legal service and advice to the Reconditioning Division of the General Manager's office.

### *Legal Organization*

There are no Criminal Sections in the Regional Legal Departments and the Regional Reconditioning Sections have been merged with the Regional Service Sections. With these exceptions, the foregoing organization is duplicated in the Regional Legal Departments. Each Division of the Washington Legal Department has a point of quick contact, through its counterpart in the Regional office, with the State, Territorial and District Legal Departments, in every jurisdiction in which the Corporation operates. Only through such an organization is it possible to obtain quickly the information and reports and to transmit the directions to the field which are necessary to render an efficient legal service to an institution engaged in such a business on so large a scale.

### *Legal Personnel*

On November 30, 1935, the Corporation employed a total of exactly 20,000 full-time salaried employees in the conduct of its business. Of these, 2,964 were employed in the Legal Department, and this figure included stenographers, clerks and other necessary office personnel of every grade, in addition to attorneys, of whom there were but 843. Of the attorneys, 67 were employed in the Home office, 189 in the

eleven Regional offices, and 587 in the State, Territorial and District offices. With the passing of the peak of the Corporation's lending operations, its personnel is being drastically reduced in every Department and in such of its offices as have not already been discontinued or consolidated within other offices.

### *Title Examiners and Loan Closers*

The work of examining land titles and conducting and closing the Corporation's loans is not done by the salaried personnel of the Corporation, but by attorneys and title companies approved by the Corporation. A standard scale of fees for these services has been adopted in each jurisdiction. These fees are paid by the borrower, but if he is financially unable to pay them, the fees may be advanced by the Corporation and charged to the borrower's account. The attorneys and title companies performing these services are in no sense employees of the Corporation. On December 9, 1935, there were 8,486 attorneys and 326 title companies upon the Corporation's "approved list" in the 52 jurisdictions mentioned above. The qualifications and standing of approved "fee" attorneys and title companies are carefully investigated by the Corporation before their names are placed upon the approved list. Unsatisfactory work by fee attorneys or title companies will result either in their removal from the Corporation's approved list or in refusal by the Corporation to permit the offenders to perform such services in connection with its future loans. On the same date, 3,163 abstracters and abstract companies in those 52 jurisdictions were rendering service in connection with the Corporation's loans.

With this brief and necessarily incomplete account of the purposes for which the Home Owners' Loan Corporation was created, its organization, the extent of the relief afforded by it to distressed homeowners and the scope of its operations, we may now turn to a summary consideration of the methods

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developed by the Corporation for the conduct of its actual lending operation, which includes the examination of title to the estates accepted by it as security for its loans and the actual conduct and closing of those loans.

## PART II

### Chapter 1

## LOAN PROCEDURE

### *Scope of Outline*

A brief review of the Corporation's loan procedure will be found useful at this point and will enable the reader to appreciate the relation borne by the operations of title examination and loan closing to the entire lending procedure. We shall attempt to outline the progress of a typical loan from the time the application is filed until the closed loan file reaches the Regional office for examination and servicing. It must be understood that only the salient features of the Corporation's procedure in the progress of a typical refunding loan can be given here and that an exhaustive treatment of this subject is impossible within the compass of this booklet. In prescribing this procedure, the Board has striven to effect uniformity as far as is practicable. Nevertheless, varying practice and procedure in the 52 jurisdictions in which the Corporation operates render some flexibility both necessary and admissible, and deviations from the prescribed procedure have been, and will in future be, permitted where good cause therefor can be shown and where proper authority for the deviation under the Corporation's rules and regulations is obtained in advance. In the following treatment it will be assumed that the application for the loan was received in a District office of the Corporation. Those portions of the following procedure which apply to State offices apply as well to Territorial offices and to the District office serving the District of Columbia.

### *Application for Loan*

The application may be filed by the prospective borrower at the Corporation's District or Subdistrict office which serves the territory in which his home property is located, or at the State or Territorial office in those jurisdic-

## LOAN PROCEDURE

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tions where no District or Subdistrict office serves the territory and their function has been assumed by the State or Territorial office. No applications are received by the Home office or by any Regional office. As said above, we shall assume that the application in the instant case is received by a District office. The application must be completed on the Corporation's approved form and signed by the applicant. With his application, the applicant is required to submit such evidence of his title to or interest in the home property as may be in his possession, together with a written statement of the circumstances which occasion his distress with reference to the property and two photographs representing unobstructed front and rear views of his property. If repair or reconditioning work upon the property is contemplated, the applicant must file a separate application to cover it. At the time of filing his application, the applicant is interviewed by an employee of the Corporation, who attempts to obtain from the applicant a complete picture of the facts and circumstances which render his application necessary.

### *Preliminary Eligibility Analysis*

The application file is then analyzed in the office of the District Manager. If the case is ineligible under the amended Act and the rules and regulations, the application is rejected, and the applicant, his mortgagee and all other interested parties are immediately notified of such rejection. An application once rejected may not be again filed, except in the most unusual circumstances, although if at any stage of the progress of the application it should be rejected, the applicant may obtain reconsideration of his case by presenting to the Manager of the receiving office his proofs that the rejection was erroneous. If upon preliminary analysis, the application appears to be eligible, a number is assigned to it, the case is noted on the progress record and the applicant is

notified of the action taken and of the number assigned to his application. The case file is then transmitted to the Control Section of the District office.

### *Character Report and Mortgagee's Report*

A character report is then ordered from an approved reporting agency. This report contains information as to the applicant's financial status and any other facts which can be ascertained concerning him which bear upon his eligibility as a borrower from the Corporation, including statements concerning his character and reputation in the community. At the same time, a report is obtained from each holder of a lien or encumbrance upon the applicant's home property, and this report contains an itemized statement of the amounts owing from the applicant to the lienholder, with other information bearing upon the eligibility of the case. All information contained in the application file at every stage of the proceedings is regarded by the Corporation as confidential, and its employees are instructed against disclosing it.

### *Preliminary Appraisal*

A preliminary appraisal of the applicant's home property is then made by an employee of the Corporation's Appraisal Department, who must inspect the property and render a report of his opinion of its value. In addition, the preliminary appraiser must report as to the necessity for repairing the home property and include in his report such other information as bears upon the eligibility of the case. If the applicant has requested that reconditioning work be done, the property may also be viewed by an inspector of the Corporation's Reconditioning Department.

### *Eligibility Analysis*

If at this point it appears that the appraised value of the property is sufficient to support the loan applied for,

## LOAN PROCEDURE

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the case is again submitted to analysis by the staff of the District Manager, and the tests of eligibility prescribed by the Board are applied to the facts disclosed by the case file which has been built up. If the case fails to measure up to all of these tests, it must be rejected, and the applicant, all lienholders and all other interested parties are immediately notified of such rejection. If, however, all of the tests are met, the case goes to final appraisal, and in all probability the loan will be granted, barring title defects or other unfavorable developments.

Of the 1,884,522 applications received by the Corporation on or before December 19, 1935, 965,713, or about 51%, had been favorably acted upon and the loans had been granted on said date. However, it should not be concluded from these figures that the remaining 49% of these applications have been rejected, for 67,668 applications still remained on that day to be acted upon by the Corporation. Of these applications received, 851,141, or about 45%, had actually been rejected as ineligible, or withdrawn, or were held in suspense on December 19, 1935.

### *Appraisal*

A second appraisal of the home property is now made by an appraiser who is not employed by the Corporation but whose qualifications have been investigated and approved by it. This appraisal is arrived at by applying the Corporation's "3-point" appraisal formula. This second appraisal is known as the "fee" appraisal and this appraiser is called the "fee" appraiser, because he is paid a fee for his services in each case by the applicant and is not an employee of the Corporation. This fee appraisal must disclose the necessity for making repairs of the home property. The amount of the appraiser's fee must be approved by the Corporation, and it is a flat fee and is not determined by the value of the property appraised. If the applicant is unable to pay the appraiser's fee, the Corporation may advance the necessary

amount and charge it to the prospective borrower's account.

If the value set upon the home property by the preliminary appraisal is such that it is doubtful that the loan can be granted, though the case appears to be eligible and regular otherwise, a fee appraisal may nevertheless be made if the applicant, a lienholder or some other interested party will post with the Corporation an amount sufficient to cover the fee appraisal or otherwise guarantee payment of the cost thereof. If the value set upon the home property is not sufficient to support the loan applied for, a second fee appraisal may generally be made, if the review appraiser in the District office considers such procedure proper in the circumstances and if the applicant or other interested party will pay for such additional appraisal. The fee appraiser's report is reviewed by a review appraiser employed by the Corporation, and if it appears that that value of the home property is sufficient to support the loan applied for, the case file is transmitted to the loan committee together with the review appraiser's recommendations. Where reconditioning work is to be done, the case file is routed through the Reconditioning Department, where specifications of the work and estimates of its cost are prepared and forwarded to the loan committee with the case file.

### *Final Corporation Value*

A loan committee sits at each State office and consists of the State Manager, the State Counsel and the State Appraiser, or their authorized deputies, respectively. In cases where reconditioning work is to be done, the State Reconditioning Supervisor, or his deputy, also sits upon the loan committee. The loan committee, after consideration of the preliminary and fee appraisals, the recommendations of the review appraiser and all other facts disclosed by the case file, fixes the final Corporation value of the home property if the case file is in every respect eligible and regular. So far as the value of the home property is concerned, the

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application is granted or rejected upon the basis of this final Corporation value, which may be in such amount as the loan committee deems proper, though it may not exceed 110% of the amount of the fee appraisal. Where reconditioning work is to be done, the final Corporation value should reflect the value of the home property as reconditioned. If the final Corporation value of the home property is not sufficient to support the loan applied for, or if the case is ineligible or irregular in any respect, the application is rejected and all interested parties are promptly notified; otherwise the case is referred to the Insurance Section.

### *Insurance Report*

The Insurance Section now prepares a schedule which sets out the kinds and amounts of insurance coverage required by the Corporation with reference to the home property. Fire insurance is required in every case in companies satisfactory to the Corporation and in an amount equal to either the depreciated reproduction value of the improvements upon the home property or the principal amount of the loan, whichever is the smaller. In some localities, windstorm and hail insurance are also required in varying amounts.

### *Tax Report*

While the insurance schedule is in preparation, in some jurisdictions a report is obtained which shows the items of taxes and assessments which constitute liens upon the home property and which are unpaid. In most jurisdictions, however, this tax and assessment report is included in the Preliminary Certificate of Title hereinafter mentioned.

### *Lienholder's Consent*

At this point the case file is referred to the Adjustment Section, in order finally to determine whether the amount which can be lent by the Corporation upon the security of the home property will be sufficient to liquidate all eligible in-

debtedness of the borrower, taxes and assessments, the cost of necessary repairs and the incidental expenses of the transaction, as well as the cost of such reconditioning work as may be contemplated. A representative of the Adjustment Section interviews each lienholder, if possible, and each lienholder's consent to accept the Corporation's bonds or cash, in an amount certain, in liquidation of his claim must be obtained in writing. The lienholder's written consent must be unconditional, though it may provide for the payment to him of accrued interest on the amount he agrees to accept to the date of close of the loan. If the amount to be lent by the Corporation is insufficient to liquidate the entire demand of a lienholder, the loan may not be closed unless the lienholder will consent to waive the unliquidated balance of his claim or will agree to subordinate it to the Corporation's prospective lien upon the home property. The amounts of claims so subordinated may not exceed the difference between the final Corporation value of the home property and the principal amount of the Corporation's loan, nor may the terms upon which such subordinated claims are payable be such as to render it unlikely that the applicant can discharge all indebtedness upon his home property when and as due or such as to cause him undue hardship. If all necessary adjustments cannot be made, the application must be rejected at this point, and all interested parties must be promptly notified of such rejection. But if all necessary adjustments have been made and the case appears to be eligible and regular in every respect, it is now referred to the Legal Department of the District office for the final steps in the progress of the loan, which will be treated in more detail below.

## Chapter 2

### TITLE EXAMINATION AND LOAN CLOSING

#### *Responsibility of Legal Department*

From the time the case file leaves the Adjustment Section until the closed loan file is transmitted to the Regional office, the Legal Department is solely responsible for its prompt and proper progress, for the reason that the examination of titles and the rendering of opinions thereon and the actual closing of the loan are matters exclusively legal in their nature.

#### *Title Investigators*

The Corporation relies upon attorneys at law, title companies and abstracters for evidence of the applicant's title to or interest in the real property offered to it as security for its loans. It relies upon attorneys at law and title companies for assurance that the instrument taken by it to secure its loan creates a valid first lien upon that title or interest within the meaning of the amended Act. It should be emphasized that none of these attorneys, title companies or abstracters is employed by the Corporation. They are employed by the applicant to furnish such evidence and assurance of his title as will be satisfactory to the Corporation, and their fees for these services are paid by the applicant, either from his own pocket or out of the proceeds of the Corporation's loan to him. The qualifications of the persons, firms and corporations rendering these services are closely scrutinized by the Corporation, and only those whose experience and equipment enable them to render an efficient and dependable service in these connections are used. Attorneys and title companies which fulfill the Corporation's requirements in these respects are enrolled upon its "Approved List of Fee Attorneys and Title Companies", and thereafter may render these services to prospective borrowers from the Corporation. If the service rendered by an approved agency should prove to be unsatisfactory to the Corporation in any respect, its services are not thereafter acceptable to the Corporation.

### *Title Fees*

The fees paid for title examination must be approved by the Corporation and must be uniform within a given locality, though a fee in excess of the standard fee may be allowed in instances where it is necessary for the title examiner to furnish extraordinary services in connection with the clearance of objections to the title or in order to remedy defects therein.

### *Requirements*

As has been said above, the Corporation's requirements in connection with its loans must go beyond those of the private mortgage lender, who will generally lend to anyone who can furnish adequate security and whose past record shows him to be an acceptable moral risk. A reading of Chapter 1, Part I, of this booklet will show that this Corporation must operate within the much more narrow limits prescribed by the amended Act, and since its loans will not in all probability be collected and otherwise serviced by the persons and agencies which conducted and closed them, it is essential that a complete record of the loan be prepared for use by its collection and servicing agencies over the 15 years which must elapse before the ultimate due-date of most of these investments.

### *Rules and Regulations*

In consequence, a procedure for the conduct of the Corporation's business and affairs has been prescribed by the Board and has been promulgated by the Manual of Rules and Regulations (commonly called the State Manual) and the Manual of Rules and Regulations for Regional offices (commonly called the Regional Manual). Additional procedure is provided, under Board authority, by administrative orders issued by the office of the General Manager with the approval of the General Counsel, and legal instructions are also from time to time issued by the General Counsel and his associates to cover special or unusual cases.

## TITLE EXAMINATION AND LOAN CLOSING

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It is essential that those attorneys and title companies upon the Corporation's approved list be kept fully informed at all times of those portions of these regulations, orders and instructions which relate to the performance of their duties in connection with the Corporation's business. The State, Territorial and District Counsel are responsible for the instruction of title examiners and loan closers in these matters, but the task is so great and a uniform procedure is so necessary to the efficient conduct of a business of such magnitude that other auxiliary methods have from time to time been devised for this purpose. The Blue Book is one of these auxiliary methods. Manuals cannot be supplied to the fee personnel, and the excerpts from the Manuals which are contained in Appendix B, post, are designed to serve as a kind of pocket manual for title examiners and loan closers. Its contents will be from time to time revised and amplified by legal bulletins and supplemental instructions issued by the several State, Territorial and District Counsel as the Manuals are amended or new rules, regulations or procedure are otherwise promulgated.

### *Usual Practice and Procedure Followed*

In general, the Corporation has endeavored to follow the practice and procedure adopted by the Bar and the better class of first mortgage lenders in the several jurisdictions in which it operates. This hypothetical "better class" includes all reputable and responsible agencies engaged in the business of lending money upon first mortgages, though similarity of problems encountered has led the Corporation to follow in many instances the practice and procedure adopted by those insurance companies which lend on first mortgage security on a national scale. It will be noted that the standards set by this "better class of first mortgage lender" are often referred to in the Corporation's regulations as guides in the determination of matters which in their nature do not lend themselves to exact definition or explicit instructions.

### *Estates Accepted*

Thus, though the security upon which the Corporation may lend is restricted by the amended Act to "real estate, in fee simple, or . . . a leasehold under a lease for not less than ninety-nine years which is renewable or under a lease having a period of not less than fifty years to run from the date the mortgage was executed", still the regulations provide that, within these limits, the Corporation will accept "such titles as the better class of first mortgage lenders have accepted in the past as first mortgage security, in the territory where the property is situated". Use restrictions, to which so much residential property is subject, offer an illustration of the application of this rule, for the Corporation may lend upon property which is subject to such restrictions if the better class of mortgage lenders in the locality customarily make loans upon the security of such property. However, it should be added that this rule-of-thumb is not and cannot be safely followed in every case, since titles which have actually been accepted by this better class of lender in the past may be and frequently are rejected upon the advice and recommendation of the Corporation's Legal Department.

### *Reference for Title Examination*

When the procedure outlined in the next preceding chapter of this booklet has been completed and all necessary adjustments have been made, our typical case is referred to the Legal Department for title examination, if it appears thus far to be eligible and regular in every respect. From that time until the application is finally disposed of, either by the granting and closing of the loan or by rejection, the Corporation's Legal Department is solely responsible for the conduct of the case and must keep a detailed record of it in order to assure its prompt and proper disposition. The entire file is now in the custody of the Legal Department.

### *Order for Preliminary Title Investigation*

An order for a preliminary report upon the condition of title to the applicant's home property is now placed with a fee attorney or title company. As said above, the name of the attorney or title company selected must appear upon the Corporation's approved list before the case is so referred, for the Corporation is vitally concerned with the accuracy and reliability of the title report upon the property it is requested to accept as security for its loan.

### *Unrecorded Liens and Claims*

An unusual feature of the title examination required by the Corporation is that although, as in the ordinary case, the preliminary title report is based upon the record title to the real property, it must also set out all unrecorded matters affecting the title of which the Corporation has acquired notice in any way, as well as all matters affecting the title to or possession of such chattels as are reasonably necessary to the comfortable use of the premises as a home. Liens upon such chattels may be refunded by the Corporation as are liens upon the realty itself, if they meet the requirements as to eligibility which are prescribed by the Corporation's regulations. Such refundings are permitted not only because removal of such chattels would probably result in injury to the freehold, even though they are not legally fixtures, but also because their removal would materially affect the value of the realty as security by diminishing its resale or rental value if vacant. Chattels of this character most frequently dealt with in the Corporation's operations are furnaces, bathroom and plumbing fixtures and the like. For all practical purposes, such chattels constitute a part of the freehold itself, from the viewpoint of the mortgage lender, whether or not such chattels constitute in law fixtures on the freehold.

### *Extent of Investigation*

The title examiner may not, therefore, confine his search

solely to matters which are of public record, but must also thoroughly investigate and report upon all matters which in any way affect the title to or possession of any of the property which is offered by the applicant to the Corporation as security for its proposed loan. In order to make the thorough title examination required by the Corporation and to render his report thereon, he must thus be well grounded in the procedure prescribed by the Manuals, and he must also be equipped to apply the Corporation's rules of eligibility to the facts found as the result of his investigation, even though eligibility is finally determined by the Corporation's State and District offices.

### *Preliminary Certificate of Title*

The title examiner's findings upon completion of the preliminary title investigation are required to be submitted to the Corporation upon its approved form of "Preliminary Certificate of Title". No deviation from this form is permitted, save in some jurisdictions where title insurance is taken and in others where the law or the prevailing practice renders minor deviations therefrom necessary or advisable in the opinion of the Legal Departments of the Home and Regional offices. Perhaps an understanding of the character and extent of the title investigation required by the Corporation can best be gained by a consideration of its standard "Preliminary Certificate of Title".

### *Extent of Title Investigation*

This form must be completed, dated as of the time of completion of the preliminary title investigation and signed by the fee attorney or title company making the investigation. By so doing, the title examiner certifies to the Corporation that the certificate contains a correct, full and complete statement of the condition of title to the real property therein described at the date of the certificate, as disclosed by examination of the public records or by examination of an abstract

which purports to reflect the contents of the public records affecting the title and as disclosed by investigation of unrecorded matters affecting title of which the examiner has notice.

### *Source of Title*

In general, the title examiner may base his Preliminary Certificate upon a grant from the sovereign, which is generally in the nature of a patent from the United States Government, or upon a search extending for at least forty years prior to the date of the Certificate to a well-recognized source of good title. The recommendations of State Counsel are generally accepted as to the adequacy of the sources of title in each jurisdiction.

### *Contents of Preliminary Certificate of Title*

The chief matters as to which the title examiner certifies in executing the Preliminary Certificate of Title are:

(a) That an accurate legal description of the real property offered to the Corporation as security for its loan is set out in said Certificate.

(b) That the marketable fee simple title to said property is indefeasibly vested in the party or parties named in the Certificate. The exact interest in the property and the marital, fiduciary or legal status of each such party must be specified.

(c) That such fee simple title thus vested under and by virtue of a deed or other instrument, which must be fully described as to parties, dates of execution and record and recording reference.

(d) That such title is free from encumbrances, except:

(1) Specified mortgages and deeds of trust, each of which must be fully described as to parties, date, amounts secured, with interest rate, and when and how due, and recording reference. Both recorded mortgages and deeds of

trust and those which are unrecorded but of which the title examiner has notice must be set out in the Preliminary Certificate.

(2) Specified mechanics' or materialmen's liens of record and unrecorded claims of such liens where the Corporation has notice that labor has been performed, services rendered or materials furnished upon the property and the statutory period for filing claims of such liens has not expired at the date of the Preliminary Certificate. Such liens and claims must also be fully described as to names of claimants, the items of labor, services and materials for which lien is claimed and the dates upon which they were performed, rendered or furnished upon the property, amount of lien or claim and, if recorded, the date of recordation and the recording reference. Such mechanics' and materialmen's liens may be refunded by the Corporation's loan if they attached to the property prior to June 13, 1933; if they did not so attach, they must be otherwise cleared before the loan may be granted. Such liens have no connection, of course, with reconditioning, repair or maintenance work done in connection with the Corporation's loan and paid for out of the proceeds thereof.

(3) Judgments of State and Federal courts, including fines and penalties in criminal matters, which constitute liens upon the property. These must also be fully described as to names of judgment debtor, judgment creditor and assignee, if any, the issuing Court, the total judgment debt, including costs and interest, and the date of docketing or entry with book and page reference thereto.

(4) Attachments upon the property, in connection with which the dates of the writ and of the accrual of the lien must be shown, as well as the names of attaching creditors, the amount of the demand, the issuing Court and proper reference to the action in which the writ issued.

(5) Liens and agreements affecting title to or posses-

## TITLE EXAMINATION AND LOAN CLOSING

sion of chattels and equipment used in connection with the real property, the removal of which would affect the utility or marketability of the premises, including conditional sale contracts, chattel mortgages, title retention agreements and the like. Not only must recorded liens and agreements of this kind be shown, but the Certificate must also set out complete descriptions of all such liens and agreements, even though unrecorded, if the Corporation has notice of their existence.

(6) Estate and income taxes, Federal and State, which constitute liens upon the property, giving name of claimant, full amount of claim, including penalties and interest, and proper reference to record of assessment as to each such recorded item.

(7) All taxes and assessments which constitute liens upon the property, as well as water rates, where they constitute such a lien, and assessments or payments upon water, ditch or irrigation stock, whether or not a lien, where retention of the rights and privileges accruing from the ownership of such stock is necessary to the full and profitable use of the real property. The form of Preliminary Certificate requires that each such item be set out with such particularity as will afford a basis for the proper application of the Corporation's rules and regulations relative to the payment of taxes and assessments.

(8) Agreements of purchase and sale of the real property, including recorded agreements and those unrecorded agreements of which the Corporation has notice, which must be fully described as to date, names of vendor and vendee, sale price, terms of sale and unpaid balance of sale price, and, if recorded, proper recording reference must also be given. Full information concerning such agreements is of particular importance in cases in which they are refunded by the Corporation's loan.

(9) Recorded leases and known unrecorded leases of any of the property, which must be fully described as to date,

parties, term, renewal terms and purchase options, and, if recorded, date of recordation and recording reference. In cases of severance of oil or mineral rights, a full report of leases or conveyances of such rights should also be furnished. Full information as to such leases is of the greatest importance in determining eligibility where a leasehold estate is offered as security for the Corporation's loan or where the Corporation is requested to refund an agreement to buy and sell which has arisen by virtue of the applicant's exercise of an option to buy contained in such a lease.

(10) Covenants, conditions and restrictions affecting the title to or use of the real property must be fully reported, whether imposed by private contract or by public authority. It is of the first importance to ascertain the exact nature of such restrictions, in order to determine the legal consequences of their breach, as reversion or other defeasance of title may result upon such breach if title is conditioned upon their performance. If their effect is to render the applicant's title or interest conditional and defeasible, and if the better class of first mortgage lenders in the locality do not lend upon the security of lands so encumbered, then the Corporation's loan may not be granted unless and until a valid release or waiver of the reversionary rights to the applicant's property is obtained and recorded.

(11) Other liens and encumbrances upon the property and objections to and defects in the title thereto, including lis pendens in State and Federal Courts, bankruptcy proceedings instituted by or against any party in the chain of title within ten years next preceding the date of the Certificate, party wall agreements, easements and encroachments and all other matters of whatever nature which in any way affect the title to or possession of the real property offered to the Corporation as security for its loan. Each such matter discovered must be fully described in the Preliminary Certificate of Title by the title examiner.

### *Clearance of Minor Encumbrances*

Upon completion of the preliminary title investigation and prior to his return of the Preliminary Certificate of Title, the title examiner should clear the title to the property of so many of the encumbrances, defects and objections discovered by him as will not be refunded out of the proceeds of the Corporation's loan or otherwise paid at or prior to the close of the loan or subordinated to the Corporation's lien at the closing of the loan. Quite frequently, minor defects, objections and encumbrances can be cleared by the mere obtaining of an affidavit or other instrument, without incurring expense, and it is intended that all such minor defects and objections shall be cleared by the title examiner before submission of his Preliminary Certificate of Title. However, even though properly cleared, such encumbrances, defects and objections should still be reported in the Preliminary Certificate, and the title examiner should note on the margin of the Certificate the fact and manner of clearance of each such item and should initial each such marginal notation. These marginal notations should be brief but so complete as to enable a stranger to the transaction to ascertain that the steps taken by the title examiner were proper and that the encumbrance, defect or objection noted was effectually cleared or cured. By such marginal notations, the title examiner should also indicate such other encumbrances, defects and objections as in his opinion may safely and properly be waived without adversely or materially affecting the Corporation's prospective security.

### *Preparation for Closing*

In the usual case, the title examiner now transmits to the District Counsel who ordered the title investigation all of the case file, including the completed Preliminary Certificate of Title and the title examiner's suggestions for clearance of such encumbrances, defects and objections as

he has not succeeded in clearing, excluding, however, such encumbrances as will be cleared at the closing of the loan in the ordinary course. The title examiner should also furnish to the District Counsel such other pertinent information as will aid in the proper disposition of the case. The careful title investigator will fix a date for closing the loan which will permit sufficient time for transmittal of the case file to the State office, through the District office, the preparation of necessary closing papers and the checking of the file in the State office, the return of the file to the loan closer, the loan closer's supplemental title search and the other preliminary steps necessary to closing the loan. Such closing date should be recommended to the State office by the title examiner, and all disbursements should be accurately computed as of that closing date. If the Preliminary Certificate discloses encumbrances, defects or objections which materially affect the title and render the property inadequate security for the Corporation's prospective loan, or if it appears that the case is ineligible in any particular, the application must be rejected at this point. If, however, the case appears to be eligible and regular, it is transmitted immediately by the District Counsel to the State Counsel, in whose office the eligibility and regularity of the case are again scrutinized.

### *Preparation of Closing Instruments*

The Legal Department of the State office now sets a date for the closing of the loan, which date should be far enough in the future to permit the loan closer to comply with the closing requirements of the State office, and prepares the note or bond, the mortgage, trust deed or security deed and an itemized statement of the disbursements to be made from the loan, which statement is known as the Settlement Sheet, where these instruments have not been prepared by the title examiner. These instruments must be prepared upon the

## TITLE EXAMINATION AND LOAN CLOSING

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approved forms and must comply with the Corporation's rules and regulations throughout. The checks and vouchers necessary for disbursement of the loan proceeds are prepared in the State office at the same time, as is a schedule of the insurance required and all other papers necessary to enable the loan closer to close and disburse the loan, and the whole file is then returned to the loan closer with the final instructions of the State office. Any attorney, firm of attorneys or title company on the Corporation's approved list may act as loan closer, but it is preferable that the same agency which made the preliminary investigation of title be selected for this purpose.

### *Loan Closing*

Upon receipt of the case file and the closing instructions of the State office, it is the duty of the loan closer to notify the applicant, the lienholders and all other interested parties of the time and place at which the loan will be closed. The applicant must also be notified of the expense incidental to the closing of the loan and required to pay the same and to provide insurance as required by the Corporation if he is able to do so. The loan closer now obtains from the applicant an Affidavit of Title, in the prescribed form, wherein the applicant sets out, under oath, all matters known to him which may affect the title to or possession of his home property, with special reference to such matters as have arisen since the filing of his application and which are not of public record. The loan closer will carefully investigate all matters newly disclosed by the Affidavit of Title and will also make a supplemental search of the record title to the home property. If new encumbrances, defects or objections disclosed by the Affidavit of Title or supplemental search of title cannot be properly cured or waived upon thorough investigation by the loan closer, he must return the case file, with a complete report of such encumbrances, defects and

objections to the State office, and the loan may not be closed except upon fulfillment of the express instructions of the State office. However, if no new encumbrances, defects or objections are so discovered, or if, having been discovered they are properly cleared or waived, the loan closer will, upon the day set for closing the loan, file for record the Corporation's lien instrument, after assuring himself by search of the public records to the time of filing such lien instrument for record that title to the home property is unchanged. Thereupon, disbursement of the loan proceeds may be made, pursuant to the Settlement Sheet and the instructions of the State office, all necessary receipts, releases and other acquittances taken, together with the cancelled instruments evidencing and securing the refunded obligations or proper assignments thereof, and the loan may be closed.

The following required and recommended procedure with reference to title examination and loan closing may merit special mention:

### *Signatures*

The instruments evidencing and securing the Corporation's loan must be executed and, where legally necessary, acknowledged by all parties whose signatures are legally necessary to the acquisition by the Corporation of a valid and enforceable lien or charge upon the fee simple title to the home property or upon an eligible leasehold estate therein. When loans are made to married persons, both spouses must join in the execution of these instruments and no such loan shall be closed without such signatures, unless the Corporation will acquire a valid, enforceable first lien or charge by virtue of the signature of one spouse alone and (a) the joinder of the spouses in the execution of said instruments would be illegal, or (b) the other spouse is legally incompetent to sign, or (c) the case be first approved by the Cor-

## TITLE EXAMINATION AND LOAN CLOSING

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poration's Loan Review Division in Washington. All parties whose signatures are required upon the instruments evidencing and securing the Corporation's loan are also required to execute the Settlement Sheet. Every instrument executed by an owner of the fee simple title or the leasehold estate accepted by the Corporation as security for its loan must be executed by him in the name under which his estate is vested in him, unless it is made to appear upon the face of the instrument that the party executing it is in fact such vestee notwithstanding a variance in name. All instruments executed by any party in connection with the loan must be executed by him in one name without variance.

### *Forms*

Wherever the use of a form is prescribed by the Corporation, the title examiner and loan closer shall use only the latest revised form approved for use in his jurisdiction, and each such form must be carefully completed, as specified by the instructions for its use or as indicated by the form itself, and dated and signed by the title examiner, loan closer or other executing party. It should be remembered that the closed loan file built up at the close of the loan must serve as the Corporation's record of the loan after many of the sources of the information contained therein are no longer available. It is therefore of great importance that the file be complete and that no item required by the rules and regulations be omitted from it.

### *Time of Closing and Disbursement*

All arrangements for the disbursement of the proceeds of the Corporation's loan must be completed before the instrument securing the loan or any other instrument designed for record in connection with the loan may be filed for record. No such disbursement may be made until the instrument securing the loan has first been filed for record and the certificate of the recording officer evidencing such filing has

been obtained, and the disbursement must be made within 72 hours after such filing for record. The instrument securing the loan may not be filed for record if more than 30 days have elapsed between its date and the time for such filing, and in cases within the operation of this rule, all loan papers must be returned to the State office, where they will be cancelled, and the loan must be closed upon new loan papers drawn by the State office. No deviations from the rules stated in this paragraph are permitted unless approval thereof by the General Counsel and the Regional Counsel is first obtained.

### *Refunded Instruments*

All instruments which evidence or secure any obligation refunded by the Corporation's loan must be cancelled and delivered to the loan closer, together with proper releases thereof, as a condition precedent to the closing of the loan, unless (a) such cancellation does not accord with the local practice, in which event the instruments may be delivered uncanceled to the loan closer, or (b) the instruments, though not lost, nevertheless cannot be delivered to the loan closer, in which event the loan closer shall obtain a copy of each such instrument and certify that each such copy is a true copy of its original and that each instrument evidencing an obligation refunded by the loan has been cancelled on its face, or (c) the instrument evidencing the refunded obligation has been lost, in which event it must either be legally re-established or security for the protection of the Corporation against such lost instrument must be approved by the General Counsel before the loan is closed. In any event, where written instruments evidence and secure the obligations refunded by the Corporation's loan, the loan closer must obtain and include in the closed loan file a proper release of each such obligation, together with the original instruments evidencing and securing such obligations or

## TITLE EXAMINATION AND LOAN CLOSING

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those authorized substitutes for such original instruments which are mentioned above. Where the obligation so refunded is neither evidenced nor secured by written instruments, a statement of the substance of the obligation, supported by the affidavits of all of the parties thereto, must be obtained by the loan closer and included in the closed loan file.

### *Certificate of Authority*

Where the release or other acquittance of an obligation refunded by the Corporation's loan is executed by another than the owner of such obligation, the authority of such party to act for such owner must be evidenced in the closed loan file by either (a) a Certificate of Authority, in the form prescribed by the Corporation, properly completed, dated and signed by the loan closer or by a full-time salaried attorney employed by the Corporation, or (b) a copy of the court order authorizing such release or acquittance of such refunded obligation, which copy must be certified by the clerk or other official or by the loan closer to be a true copy of its original, or (c) authorization by the Comptroller of the Currency for the release or acquittance of such obligation in cases where such obligation is held by an institution in his custody. The prescribed Certificate of Authority is preferred to other evidence in all cases in which the circumstances permit its use.

### *Final Certificate of Title*

When the instrument securing the Corporation's loan has been filed for record and the loan proceeds have been disbursed, the loan closer shall complete, date and execute a Final Certificate of Title, in the form prescribed by the Corporation. By so doing, the loan closer certifies that in his opinion the fee simple title or leasehold estate described in the Preliminary Certificate of Title and in the instrument securing the Corporation's loan is, at the date of the Final

Certificate, vested in the applicant by virtue of a deed or other instrument fully described in the Final Certificate, that all encumbrances, defects and objections shown by the Preliminary Certificate, except taxes and assessments not yet due and payable, have been properly cleared, that the recorded instrument securing the Corporation's loan creates, in his opinion, a valid lien upon the property therein described, subject only to the taxes and assessments mentioned above, that such security instrument secures the note or bond of the applicant in favor of the Corporation, that the full consideration for said note or bond and security instrument has passed to the applicant, and that his title examination was continued from the date of the Preliminary Certificate of Title to the day and hour specified in the Final Certificate, which day and hour includes the time at which the Corporation's security instrument was filed for record and is the date of the Final Certificate of Title.

### *Reconditioning*

The progress of the typical loan as outlined above is not in any way altered in those cases in which reconditioning or repair and maintenance work are financed by the Corporation for the applicant as an incident of a refunding loan. In such cases, the home property is appraised at its value as reconditioned, after estimates of the cost of such reconditioning have been made by the Corporation's representatives, competitive bids are taken, the contract is awarded to the lowest qualified bidder and funds to defray the cost of the reconditioning work are included in the loan and are placed in escrow with the Corporation for that purpose at the time the refunding loan is closed. Thereafter, the reconditioning work must be performed under the supervision of a salaried representative of the Corporation or an inspector approved by the Corporation and retained upon a fee basis, and upon completion of the work, the funds allocated to that purpose

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are disbursed and proper receipts and releases are taken by the Corporation. In cases where application for a loan for reconditioning or repair and maintenance work is made after a refunding loan has been placed by the Corporation upon the home property, a much simplified procedure has been prescribed, especially where the loan is for necessary repairs to an amount not exceeding \$300.

### *Transmittal of Closed Loan File*

Upon the day the loan is closed, the loan closer should transmit all available instruments and material in the loan file to the State or District office from which he received his instructions, and this shipment must include in any event the Settlement Sheet, the instrument evidencing the Corporation's loan, duplicates of all Authorizations for Delivery of Bonds to lienholders and the recording official's certificate that the instrument securing the loan has been filed for record. If other loan instruments are not available on the day of closing, they must be transmitted to the State or District office by the loan closer in a second shipment as soon as the same are available to him, in order that the closed loan file may be made complete. Upon receipt of each such shipment by the District office, it must be properly checked and approved by the District Counsel's staff and forwarded promptly to the State office. There the shipment is again carefully checked as to accuracy and completeness in the State Counsel's office and it is then promptly forwarded to the Regional office serving the territory.

In the Regional office, the loan is set up and serviced upon receipt of the first shipment of loan papers, and upon completion of the closed loan file, it is audited, its servicing is completed and it is subjected to rigid examination by the Examining Section of the Regional Legal Department, pursuant to the procedure prescribed for that purpose. It is of interest to note, in connection with this final legal examina-

tion of the closed loan file, that of the 920,779 files thus examined through November 28, 1935, only 41 have been found to be substantially defective, by which is meant that the defect discovered may, but will not necessarily, jeopardize the recovery by the Corporation of all or part of the funds lent and that the defect could not be cured by the Corporation's Legal Department. Of all irregularities discovered by the Regional Examining Sections, which irregularities include some substantial defects but consist for the most part of infractions of the provisions of the amended Act or of the Corporation's rules and regulations which cannot jeopardize the Corporation's recovery of its loan, nearly 99% have been cured by the Corporation's Legal Department.

When the final legal examination of the closed loan file has been completed by the Regional Examining Section, the file is retired to the permanent files to serve as the record of the Corporation's loan until the loan is repaid or the Corporation's lien is enforced by foreclosure or otherwise.

### *Termination of Lending Phase*

It is now intended that the Corporation will close no loans after June 12, 1936, and that date will therefore mark the end of the first phase of the work for which the Corporation was created. Thereafter its major tasks will be to service and collect its loans, dispose of real estate acquired in the course of its operations, retire its bonds and otherwise liquidate its business as expeditiously as possible, as directed by the amended Act.

APPENDIX A

EXCERPTS FROM THE  
HOME OWNERS' LOAN ACT OF 1933  
AS AMENDED

(Public, No. 43—73d Congress)

(H. R. 5240)

**EXCERPTS FROM  
HOME OWNERS' LOAN ACT OF 1933  
AS AMENDED**

AN ACT To provide emergency relief with respect to home mortgage indebtedness, to refinance home mortgages, to extend relief to the owners of homes occupied by them and who are unable to amortize their debt elsewhere, to amend the Federal Home Loan Bank Act, to increase the market for obligations of the United States and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Home Owners' Loan Act of 1933."*

**Definitions**

Sec. 2. As used in this Act—

(a) The term "Board" means the Federal Home Loan Bank Board created under the Federal Home Loan Bank Act.

(b) The term "Corporation" means the Home Owners' Loan Corporation created under section 4 of this Act.

(c) The term "home mortgage" means a first mortgage on real estate in fee simple or on a leasehold (1) under a lease for not less than ninety-nine years which is renewable, or (2) under a lease having a period of not less than fifty years to run from the date the mortgage was executed, upon which there is located a dwelling or dwellings for not more than four families, which is used in whole or in part by the owner as a home or held by him as his homestead, and which has a value of not to exceed \$20,000; and the term "first mortgage" includes such classes of first liens as are commonly given to secure advances on real estate under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby.

. . .

*Repeal of Direct Loan Provision of Federal Home Loan Bank Act*

Sec. 3. Subsection (d) of section 4 of the Federal Home Loan Bank Act (providing for direct loans to home owners) is hereby repealed.

*Creation of Home Owners' Loan Corporation*

Sec. 4. (a) The Board is hereby authorized and directed to create a corporation to be known as the Home Owners' Loan Corporation, which shall be an instrumentality of the United States, which shall have authority to sue and to be sued in any court of competent jurisdiction, Federal or State, and which shall be under the direction of the Board and operated by it under such bylaws, rules, and regulations as it may prescribe for the accomplishment of the purposes and intent of this section. The members of the Board shall constitute the board of directors of the Corporation and shall serve as such directors without additional compensation.

(b) The Board shall determine the minimum amount of capital stock of the Corporation and is authorized to increase such capital stock from time to time in such amounts as may be necessary, but not to exceed in the aggregate \$200,000,000. Such stock shall be subscribed for by the Secretary of the Treasury on behalf of the United States, and payments for such subscriptions shall be subject to call in whole or in part by the Board and shall be made at such time or times as the Secretary of the Treasury deems advisable. The Corporation shall issue to the Secretary of the Treasury receipts for payments by him for or on account of such stock, and such receipts shall be evidence of the stock ownership of the United States. In order to enable the Secretary of the Treasury to make such payments when called, the Reconstruction Finance Corporation is authorized and directed to allocate and make available to the Secretary of the

Treasury the sum of \$200,000,000, or so much thereof as may be necessary, and for such purpose the amount of the notes, bonds, debentures, or other such obligations which the Reconstruction Finance Corporation is authorized and empowered under section 9 of the Reconstruction Finance Corporation Act, as amended, to have outstanding at any one time, is hereby increased by such amounts as may be necessary.

(c) In order to provide for applications heretofore filed, for applications filed within thirty days after this amendment takes effect, and for carrying out the other purposes of this section, the Corporation is authorized to issue bonds in an aggregate amount not to exceed \$4,750,000,000, which may be exchanged as hereinafter provided, or which may be sold by the Corporation to obtain funds for carrying out the purposes of this section or for the redemption of any of its outstanding bonds; and the Corporation is further authorized to increase its total bond issue for the purpose of retiring its outstanding bonds by an amount equal to the amount of the bonds to be so retired (except bonds retired from payments of principal on loans), such retirement to be at maturity or by call or purchase or exchange or any method prescribed by the Board with the approval of the Secretary of the Treasury: Provided, That no bonds issued under this subsection, as amended, shall have a maturity date later than 1952. Such bonds shall be in such forms and denominations, shall mature within such periods of not more than eighteen years from the date of their issue, shall bear such rates of interest not exceeding 4 per centum per annum, shall be subject to such terms and conditions, and shall be issued in such manner and sold at such prices, as may be prescribed by the Corporation, with the approval of the Secretary of the Treasury. Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed

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on the face thereof, and such bonds shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. In the event that the Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such bonds, the Secretary of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such bonds. The Secretary of the Treasury, in his discretion, is authorized to purchase any bonds of the Corporation issued under this subsection which are guaranteed as to interest and principal, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchases of the Corporation's bonds hereunder. The Secretary of the Treasury may, at any time, sell any of the bonds of the Corporation acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of the bonds of the Corporation shall be treated as public-debt transactions of the United States. The bonds issued by the Corporation under this subsection shall be exempt, both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States or any District, Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves and surplus, and its loans and income, shall likewise be exempt from such taxation; except

that any real property of the Corporation shall be subject to taxation to the same extent, according to its value, as other real property is taxed. No such bonds shall be issued in excess of the assets of the Corporation, including the assets to be obtained from the proceeds of such bonds, but a failure to comply with this provision shall not invalidate the bonds or the guaranty of the same. The Corporation shall have power to purchase in the open market at any time and at any price not to exceed par any of the bonds issued by it. Any such bonds so purchased may, with the approval of the Secretary of the Treasury, be sold or resold at any time and at any price. For a period of six months after the date this subsection, as amended, takes effect, the Corporation is authorized to refund any of its bonds issued prior to such date or any bonds issued after such date in compliance with commitments of the Corporation outstanding on such date, upon application of the holders thereof, by exchanging therefor bonds of an equal face amount issued by the Corporation under this subsection as amended, and bearing interest at such rate as may be prescribed by the Corporation with the approval of the Secretary of the Treasury; but such rate shall not be less than that first fixed after this subsection, as amended, takes effect on bonds exchanged by the Corporation for home mortgages. For the purpose of such refunding the Corporation is further authorized to increase its total bond issue in an amount equal to the amount of the bonds so refunded. Nothing in this subsection, as amended, shall be construed to prevent the Corporation from issuing bonds in compliance with commitments of the Corporation on the date this subsection, as amended, takes effect.

(d) The Corporation is authorized, for a period of three years after the date of enactment of this Act, (1) to acquire in exchange for bonds issued by it, home mortgages and other obligations and liens secured by real estate (including the interest of a vendor under a purchase-money mort-

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gage or contract) recorded or filed in the proper office or executed prior to the date of the enactment of this Act, and (2) in connection with any such exchange, to make advances in cash to pay the taxes and assessments on the real estate, to provide for necessary maintenance and make necessary repairs, to meet the incidental expenses of the transaction, and to pay such amounts, not exceeding \$50, to the holder of the mortgage, obligation, or lien acquired as may be the difference between the face value of the bonds exchanged plus accrued interest thereon and the purchase price of the mortgage, obligation, or lien. The face value of the bonds so exchanged plus accrued interest thereon and the cash so advanced shall not exceed in any case \$14,000, or 80 per centum of the value of the real estate as determined by an appraisal made by the Corporation, whichever is the smaller. In any case in which the amount of the face value of the bonds exchanged plus accrued interest thereon and the cash advanced is less than the amount the home owner owes with respect to the home mortgage or other obligation or lien so acquired by the Corporation, the Corporation shall credit the difference between such amounts to the home owner and shall reduce the amount owed by the home owner to the Corporation to that extent. Each home mortgage or other obligation or lien so acquired shall be carried as a first lien or refinanced as a home mortgage by the Corporation on the basis of the price paid therefor by the Corporation, and shall be amortized by means of monthly payments sufficient to retire the interest and principal within a period of not to exceed fifteen years; but the amortization payments of any home owner may be made quarterly, semiannually, or annually, if in the judgment of the Corporation the situation of the home owner requires it. Interest on the unpaid balance of the obligation of the home owner to the Corporation shall be at a rate not exceeding 5 per centum-per annum. The Corporation may at any time grant an extension of time to any home owner for the

payment of any installment of principal or interest owed by him to the Corporation if, in the judgment of the Corporation, the circumstances of the home owner and the condition of the security justify such extension. As used in this subsection, the term "real estate" includes only real estate held in fee simple or on a leasehold (1) under a lease for not less than ninety-nine years which is renewable, or (2) under a lease having a period of not less than fifty years to run from the date the mortgage was executed, upon which there is located a dwelling or dwellings for not more than four families, which is used in whole or in part by the owner as a home or held by him as his homestead, and which has a value of not to exceed \$20,000. No discrimination shall be made under this Act against any home mortgage by reason of the fact that the real estate securing such mortgage is located in a municipality, county, or taxing district which is in default upon any of its obligations.

For the purposes of this Act, levies of assessments upon real property, made by any special district organized in any State for public improvements, shall be treated as general-tax levies are treated. The Board shall determine the reasonableness of the total annual burden of taxes and assessments of all kinds upon any property offered as security for the payment of a loan made by the Corporation and the effect of the total levies upon the loanable value of such property, but no deduction shall be made from the loanable value of any property for levies not due at the time of making such loan in any instance where the total annual taxes and assessments borne by the said property for all purposes does not exceed a sum which, in the discretion of the Board, is a reasonable annual tax burden for such property.

(e) The Corporation is further authorized, for a period of three years from the date of enactment of this Act, to make loans in cash subject to the same limitations and for the same purposes for which cash advances may be made under subsec-

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tion (d) of this section, in cases where the property is not otherwise encumbered; but no such loan shall exceed 50 per centum of the value of the property securing the same as determined upon an appraisal made by the Corporation. Each such loan shall be secured by a duly recorded home mortgage, and shall bear interest at the same rate and shall be subject to the same provisions with respect to amortization and extensions as are applicable in the case of obligations refinanced under subsection (d) of this section.

(f) The Corporation is further authorized, for a period of three years from the date of enactment of this Act, in any case in which the holder of a home mortgage or other obligation or lien eligible for exchange under subsection (d) of this section does not accept the bonds of the Corporation in exchange as provided in such subsection and in which the Corporation finds that the home owner cannot obtain a loan from ordinary lending agencies, to make cash advances to such home owner in an amount not to exceed 40 per centum of the value of the property for the purposes specified in such subsection (d). Each such loan shall be secured by a duly recorded home mortgage and shall bear interest at a rate of interest which shall be uniform throughout the United States, but which in no event shall exceed a rate of 6 per centum per annum, and shall be subject to the same provisions with respect to amortization and extensions as are applicable in cases of obligations refinanced under subsection (d) of this section.

(g) The Corporation is further authorized to exchange bonds and to advance cash to redeem or recover homes lost by the owners by foreclosure or forced sale by a trustee under a deed of trust or under power of attorney, or by voluntary surrender to the mortgagee subsequent to January 1, 1930, subject to the limitations provided in subsection (d) of this section.

(h) The Board shall make rules for the appraisal of the

property on which loans are made under this section so as to accomplish the purposes of this Act: Provided, That no person shall be allowed to act as appraiser if he is in the employ of any company holding a loan on the property, or if he is interested in the subject matter of the loan.

(i) Any person indebted to the Corporation may make payment to it in part or in full by delivery to it of its bonds which shall be accepted for such purpose at face value.

(j) The Corporation shall have power to select, employ, and fix the compensation of such officers, employees, attorneys, or agents as shall be necessary for the performance of its duties under this Act, without regard to the provisions of other laws applicable to the employment or compensation of officers, employees, attorneys, or agents of the United States. No such officer, employee, attorney, or agent shall be paid compensation at a rate in excess of the rate provided by law in the case of the members of the Board. The Corporation shall be entitled to the free use of the United States mails for its official business in the same manner as the executive departments of the Government, and shall determine its necessary expenditures under this Act and the manner in which they shall be incurred, allowed, and paid, without regard to the provisions of any other law governing the expenditure of public funds. The Corporation shall pay such proportion of the salary and expenses of the members of the Board and of its officers and employees as the Board may determine to be equitable, and may use the facilities of Federal Home Loan Banks, upon making reasonable compensation therefor as determined by the Board. No person shall be appointed or retained as an officer, employee, agent, or attorney, at a fixed salary, in any regional or State office of the Corporation who is an officer or director of any firm, corporation, or association engaged in lending money on real estate; nor shall any person be appointed or retained as an officer, employee, agent, or attorney in any State or district office of the Corporation, who

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has not been a bona fide resident of the State served by such office for a period of at least one year immediately preceding the date of his appointment.

(k) The Board is authorized to make such bylaws, rules and regulations, not inconsistent with the provisions of this section, as may be necessary for the proper conduct of the affairs of the Corporation. The Corporation is further authorized and directed to retire and cancel the bonds and stock of the Corporation as rapidly as the resources of the Corporation will permit. All payments upon principal of loans made by the Corporation shall under regulations made by the Corporation be applied to the retirement of the bonds of the Corporation. Upon the retirement of such stock, the reasonable value thereof as determined by the Board shall be paid into the Treasury of the United States and the receipts issued therefor shall be canceled. The Board shall proceed to liquidate the Corporation when its purposes have been accomplished, and shall pay any surplus or accumulated funds into the Treasury of the United States. The Corporation may declare and pay such dividends to the United States as may be earned and as in the judgment of the Board it is proper for the Corporation to pay.

(l) No home mortgage or other obligation or lien shall be acquired by the Corporation under subsection (d), and no cash advance shall be made under subsection (f), unless the applicant was in involuntary default on June 13, 1933, with respect to the indebtedness on his real estate and is unable to carry or refund his present mortgage indebtedness: Provided, That the foregoing limitation shall not apply in any case in which it is specifically shown to the satisfaction of the Corporation that a default after such date was due to unemployment or to economic conditions or misfortune beyond the control of the applicant.

(m) In all cases where the Corporation is authorized to advance cash to provide for necessary maintenance and to

make necessary repairs it is also authorized to advance cash or exchange bonds for the rehabilitation, modernization, rebuilding and enlargement of the homes financed; and in all cases where the Corporation has acquired a home mortgage or other obligation or lien it is authorized to advance cash or exchange bonds to provide for the maintenance, repair, rehabilitation, modernization, rebuilding, and enlargement of the homes financed and to take an additional lien, mortgage, or conveyance to secure such additional advance or to take a new home mortgage for the whole indebtedness; but the total amount advanced shall in no case exceed the respective amounts or percentages of value of the real estate as elsewhere provided in this section. Not to exceed \$400,000,000 of the proceeds derived from the sale of bonds of the Corporation shall be used in making cash advances to provide for necessary maintenance and necessary repairs and for the rehabilitation, modernization, rebuilding and enlargement of real estate securing the home mortgages and other obligations and liens acquired by the Corporation under this section.

(n) The Corporation is authorized to purchase Federal Home Loan Bank bonds, debentures, or notes, or consolidated Federal Home Loan Bank bonds or debentures. The Corporation is also authorized to purchase full-paid-income shares of Federal Savings and Loan Associations after the funds made available to the Secretary of the Treasury for the purchase of such shares have been exhausted. Such purchases of shares shall be on the same terms and conditions as have been heretofore authorized by law for the purchase of such shares by the Secretary of the Treasury: Provided, That the total amount of such shares in any one association held by the Secretary of the Treasury and the Corporation shall not exceed the total amount of such shares heretofore authorized to be held by the Secretary of the Treasury in any one association. The Corporation is also authorized to purchase shares in any institution which is (1) a member of a Federal

Home Loan Bank, or (2) whose accounts are insured under title IV of the National Housing Act, if the institution is eligible for insurance under such title; and to make deposits and purchase certificates of deposit and investment certificates in any such institution. Of the total authorized bond issue of the Corporation \$300,000,000 shall be available for the purposes of this subsection, without discrimination in favor of Federally chartered associations, and bonds of the Corporation not exceeding such amount may be sold for the purposes of this subsection. . . .

Sec. 7. The provisions of this Act shall apply to the continental United States, to the Territories of Alaska and Hawaii, and to Puerto Rico and the Virgin Islands.

### *Penalties*

Sec. 8. (a) Whoever makes any statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way the action of the Home Owners' Loan Corporation or the Board or an association upon any application, advance, discount, purchase, or repurchase agreement, or loan, under this Act, or any extension thereof by renewal deferment, or action or otherwise, or the acceptance, release, or substitution of security therefor, shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any note, debenture, bond, or other obligation or coupon, in imitation of or purporting to be a note, debenture, bond, or other obligation, or coupon, issued by the Home Owners' Loan Corporation or an association; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited note, debenture, bond, or other obligation, or coupon, purporting to have been issued by the Home Owners' Loan Corporation or an association, knowing the same to be false, forged, or counterfeited; or (3) falsely alters

any note, debenture, bond or other obligation, or coupon, issued or purporting to have been issued by the Home Owners' Loan Corporation or an association; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true any falsely altered or spurious note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by the Home Owners' Loan Corporation or an association, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with the Board or the Home Owners' Loan Corporation or an association (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise intrusted to it; or (2) with intent to defraud the Board or the Home Owners' Loan Corporation or an association, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiners of the Board or the Home Owners' Loan Corporation or an association, makes any false entry in any book, report, or statement of or to the Board or the Home Owners' Loan Corporation or an association, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

(d) The provisions of sections 29, 30, 32, 35, 37, 39, 112, 113, and 117 of the Criminal Code of the United States (U. S. C., title 18, secs. 73, 74, 76, 82, 83, 88, 91, 202, 203, and 207), insofar as applicable, are extended to apply to the Home Owners' Loan Corporation, its contracts or agreements, and an association under this Act which, for the purposes herein shall be held to include advances, loans, discounts, and purchase or repurchase agreements; extensions and re-

newals thereof; and acceptances, releases, and substitutions of security therefor.

(e) No person, partnership, association, or corporation shall, directly or indirectly, solicit, contract for, charge, or receive, or attempt to solicit, contract for, charge, or receive, from any person applying to the Corporation for a loan, (1) any fee, charge, or other consideration, whether bond or cash, except ordinary fees authorized and required by the Corporation for services actually rendered for examination and perfection of title, appraisal, and like necessary services, or (2) any moneys, check, note, or other form of obligation, representing payment of any difference which may exist between the market value and the par value of the bonds of the Home Owners' Loan Corporation. Any person, partnership, association, or corporation violating the provisions of this subsection shall, upon conviction thereof, be fined not more than \$5,000, or imprisoned not more than two years, or both.

### *Separability Provision*

Sec. 9. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Home Owners' Loan Act of 1933, approved June 13, 1933.

An Act to Guarantee the Bonds of the Home Owners' Loan Corporation, approved April 27, 1934.

The National Housing Act, approved June 27, 1934.

An Act to Provide Additional Home-Mortgage Relief approved May 28, 1935.

## APPENDIX B

### EXCERPTS FROM HOLC MANUAL OF RULES AND REGULATIONS DEALING WITH TITLE EXAMINATION AND LOAN CLOSING

Note: Parenthetical notations  
refer to State Manual  
chapters and sections.

**1. *Fee Attorneys and Title Companies***

a. Selection of Fee Attorneys and Title Companies (Ch. VI, sec. 1 d[1]).

The State Manager and State Counsel shall select and recommend responsible title companies for title examinations and other purposes required in connection with making loans, and shall select also all necessary fee attorneys, who shall be the best qualified attorneys available in the territory. Both individual attorneys and firms of attorneys shall be selected on the basis of the best interests of the Corporation. All fee attorneys and title companies shall be selected subject to the approval of the General Counsel.

b. Fee Attorneys Are not Employees (Ch. VI, sec. 1 d[2]).

Fee attorneys are not employees of this Corporation and shall be paid upon a fee basis, . . .

c. Closing Work to Be Done by Fee Attorneys (Ch. VI, sec. 1 d[3]).

All loan closing work should be done in the office of the fee attorneys or title companies. All State Counsel and State Managers should select a sufficient number of fee attorneys and/or title companies in each county to do the work promptly and efficiently.

d. Where Firm Name to Be Signed by Fee Attorney (Ch. VI, sec. 1 d[4]).

Where a firm of attorneys has been placed on the approved list of fee attorneys, the preliminary certificate, final certificate, or other form or report is required to be signed in the name of the firm by a member thereof, and where a member but not the firm is on the approved list, such certificates, forms, or reports shall be signed in the name of the firm by such member.

e. When Fee Attorney's Work Is Unsatisfactory (Ch. VI, sec. 1 d[5]).

The State Counsel should immediately notify the Re-

gional Counsel whenever the work of any fee attorney may be unsatisfactory, or if for any reason such fee attorney is no longer available to perform work for the Corporation. The State Counsel is instructed not to refer any additional work to any attorney whose work is unsatisfactory. The General Counsel, if in his opinion the work of any fee attorney is unsatisfactory, may direct that no more work shall be sent to such fee attorney. The Regional Counsel may similarly give such directions and must report the same to the General Counsel.

f. Writing of Insurance by Fee Attorneys (Ch. VI, sec. 1 d[6]).

Fee attorneys who are also local insurance agents may be allowed to rewrite policies, on risks previously written by them, covering properties being refinanced by the Corporation, but fee attorneys shall not solicit or accept business on any risks, covering properties being refinanced by the Corporation, which they have not heretofore written.

g. Attorneys Who Are Holding Public Office (Ch. VI, sec. 1 d[7]).

Title work shall not be given to a fee attorney actively engaged in running for public office, but he shall be allowed to complete work previously given him before he sought such office. If a fee attorney is holding any public office, which makes it impossible for him properly to handle title work for this Corporation, then during such period of office no title work shall be referred to him. The holding of public office shall not disqualify a fee attorney, if the duties of such office do not interfere with proper handling of the title work of the Corporation. No person may be employed as a salaried attorney while engaged in running for public office or while holding public office.

h. (Ch. XIV, sec. 17 and Ch. III, sec. 16).

. . . Fee attorneys . . . and others compensated on a fee basis are not entitled to the benefits of the Compensation Act.

. . . Persons employed on a fee basis are not officers of the Government within the meaning of the law and are not entitled to the free use of the United States mails.

i. (Ch. VII, sec. 2 a[2]).

In all cases where . . . (a) fee attorney . . . or other fee personnel is either an applicant for a loan or is interested as a lien holder or interested in a corporation or company which is a lien holder, or is attorney or agent for any interested party, the complete file must be forwarded to the Loan Review Division in Washington for final approval before closing.

j. (Ch. IX, sec. 2 b).

Fees paid to fee attorneys, title companies or abstractors and escrow agencies for services rendered in connection with title examination and loan closing shall be paid only after loans have been closed. . . .

## 2. *Eligibility*

a. *Legal Tests for Eligibility* (Ch. VI, sec. 4 a).

To be eligible for consideration under the Home Owners' Loan Act of 1933 and Amendments, all applications for refinancing home properties must be submitted to the following legal tests:

(1) The property must be real estate held in fee simple or held under a lease for not less than ninety-nine years, which is renewable, or held under a lease having not less than fifty years to run from the date the mortgage is executed.

(2) The property must have located thereon a dwelling or dwellings for not more than four families.

(3) The property must be used by the owner as his home or held by him as his homestead.

(4) The property must have a value not exceeding \$20,000 as appraised by the Corporation.

(5) No loan may be made for an amount that exceeds \$14,000, or eighty per centum (80%) of the Corporation's

appraisal of the property offered, whichever is the smaller.

(6) The applicant must have been in involuntary default on June 13th, 1933, with respect to the indebtedness on his home and be unable to carry or refund his present mortgage indebtedness except where it is specifically shown to the satisfaction of the Corporation that a default after June 13th, 1933, is due to unemployment or economic conditions or misfortune beyond the control of the applicant.

(7) To redeem a home from forced sale or voluntary surrender to a mortgagee, such sale or surrender must have been subsequent to January 1st, 1930.

b. Supplementary Tests of Eligibility (Ch. VI, sec. 4 b).

Many cases occur which must be determined by an interpretation of the general principles laid down by the Act. To assist in the decision of such cases, the following regulations and comments are added as supplementary to the legal tests.

(1) If the property is not encumbered by a mortgage or other obligation or lien, a loan may be made in an amount not to exceed 50 per centum of the value of the property as determined upon an appraisal made by the Corporation, to pay the taxes and assessments on the real estate and to provide for necessary maintenance and make necessary repairs and for rehabilitation, modernization, rebuilding and enlargement and to pay incidental expenses of the transaction. In this connection, however, it must be shown to the satisfaction of the Corporation that the applicant is unable to secure funds for these purposes from either private sources or other governmental agencies.

(2) In cases of combined business and residence property where the business portion of the property predominates and the loan is eligible in all other respects, the file shall be forwarded to the Loan Review Division in Washington, D. C., and the Loan Review Division shall determine the amount of the loan to be granted.

(3) If a portion of the property is rented for any pur-

## APPENDIX B

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pose, the rent therefrom must be assigned to the Corporation as additional security but may be retained by the borrower as long as installments due on the Corporation's loan are paid.

(4) Any applicant who has secured one loan is not eligible for another.

(5) The moral character and past record for honesty and integrity of the applicant must be considered as an element of eligibility. The applicant is ineligible if his record is unsatisfactory in these respects.

(6) A home which is being used for illegal or immoral purposes is ineligible.

(7) The property may have some farm land, but ordinary farm property is not eligible. The test here is whether the applicant is primarily a farmer, or draws his main livelihood from some other source than the land. In all cases of this character where there is any doubt as to whether the loan should be made by the Farm Credit Administration or by this Corporation the file should be referred to the Loan Review Division, Washington, D. C., for consideration.

(8) The applicant need not necessarily be living on the property to be eligible for refinancing, but in such cases it must be shown beyond all reasonable doubt that the property is the bona fide home of the applicant and he or she is only temporarily absent therefrom, and the State Manager shall require satisfactory proof, including an affidavit of the good faith of the applicant.

(9) Where the applicant acquired title to the property since June 13, 1933, it must be shown that he resided thereon on said last mentioned date as his home and had some substantial interest directly or indirectly in the same, or has since acquired title by inheritance or by gift, and in the case of a gift, the applicant should further show to the satisfaction of the Loan Review Division in Washington that such property was received as a bona fide absolute gift of an equity of substantial value.

(10) Great care must be exercised in cases where home mortgage distress is only incidental to the applicant's general financial embarrassment in his business or banking commitments. It is not intended to refinance an applicant's home if such refinancing only serves as a protection to bank loans or other business obligations.

(11) The applicant must be in real distress with his mortgage indebtedness, and yet applicants who have no present or prospective income of any character and who clearly cannot pay the indebtedness proposed to be refunded are not eligible, unless their notes are also signed by responsible parties. It is the intention to preserve the homes of those who are victims of the general economic depression, and who have a reasonable chance of financially rehabilitating themselves with the return of more normal conditions. The Corporation does not intend to refinance the home of an owner who could continue to carry his present loan by making some sacrifice, nor will it refinance the home of an owner who is in such hopeless distress, through illness or advanced age, as to be primarily a case for charity.

c. Liens Eligible for Refinancing (Ch. VI, sec. 4 c).

The Corporation is authorized to take up any kind or number of liens against a home, such as first mortgages, second mortgages, judgments, purchase money contracts and all other kinds of liens which were recorded or filed in the proper office, or executed prior to June 13, 1933, provided the case is otherwise within the provisions set forth in this Manual.

d. Liens Ineligible for Refinancing.

(1) Incidental Agreements (Ch. VI, sec. 4 d [1]).

The Corporation will not refund any indebtedness where the mortgagor is required to pay more than he owes, through agreements either to pay future interest to the original mortgagee, or to absorb any loss of interest by the original mortgagee, or to guarantee any difference between the face value of the bonds plus accumulated interest thereon and the market value of the same, or to cover any assumed loss on account

of acceptance of the bonds of the Corporation by the mortgagee. The Corporation will not become a party to any contract between a mortgagor and a mortgagee in reference to indebtedness refunded by the Corporation.

(2) *Second Mortgages* (Ch. VI, sec. 4 d[2]).

Where the full amount of the indebtedness against the property cannot be refunded by the Corporation, the mortgagee or other lien holder will be permitted to take a second mortgage or second deed of trust if the amount of such second mortgage or deed of trust does not exceed the difference between the Corporation's appraisal and the amount of the Corporation's first mortgage. In no case shall the second trust or second mortgage to such other mortgagee or lien holder be in terms which would cause the mortgagor's payments to the Corporation to be a hardship, or deprive the mortgagor of reasonable opportunity to pay such second mortgage or second trust.

3. *Tax Search* (Ch. III, sec. 11 a).

At the same time that the case is referred to the Insurance Section, the Control Section should order a tax search from the Tax Section or from outside sources approved for rendering such service. The Tax Report shall set forth a schedule of all taxes and assessments due and unpaid plus the penalties to date. If there are any special levies or assessments affecting the property, the search will show the total amount of the lien, the date the lien attached, the amount now due and payable and it will contain a schedule of installments payable in the future. In those States where the offices of the Corporation do not have Tax Sections, tax reports may, with the approval of the Regional Manager, be obtained from fee attorneys, abstract companies or title companies in accordance with the procedure heretofore in effect in such States.

4. *Treatment of Loan Files* (Ch. III, sec. 12 f).

Loan files shall not be delivered to the Legal Department,

and no abstracts or other title work ordered, or any other title expense incurred, until after all proper and necessary work as to such files has been wholly completed by the other Departments, including the determination under all required signatures, of the final Corporation appraisal. Files which are not in proper condition to proceed with the title work must be promptly returned to the proper Department for further handling. No abstracts or other title work may be ordered except by the Legal Department which shall have control of and be responsible for every file received by this Department until the loan is closed and the file forwarded to the proper Regional Office. Loan files rejected by the Legal Department shall be returned promptly to the Department concerned. The Legal Department shall keep an adequate record of all loan files received, of the progress of the work thereon, and of their disposition.

**5. *Assignment of Cases for Title Examination***  
(Ch. III, sec. 13 a).

The responsibility for the distribution of cases to fee attorneys, abstract or title companies . . . shall rest with the Legal Department in the District Office in which the application has been filed, or to which it has been forwarded, for examination. If the State Office, in addition to its administrative duties, is also acting in the capacity of a District Office, insofar as the examination of title is concerned, the Legal Department of such State Office will, under circumstances similar to those mentioned above, be charged with a like duty and responsibility. The Legal Department in the State or District Office responsible for the examination of title will order an examination as soon as the case is received.

**6. *Procedure Required*** (Ch. VI, sec. 18).

In the examination of titles and closing of loans the procedure set forth in (the Corporation's Manual of Rules and Regulations) is required, together with all such other

precautions as are necessary for reasonable assurance of a valid first lien upon eligible estates. The best practice wherever possible is to have all work in connection with the title examination and closing of loans done for one fee by either a fee attorney or title company. Such fee attorney or title company should do all such necessary legal work and the Legal Department should confine itself to review and supervision.

**7. Order for Title Examination** (Ch. VI, sec. 19).

Upon receipt by the Legal Department of a loan file for title examination, the State or Wholesale Counsel or the Counsel for a District or Autonomous Office, shall direct an approved fee attorney or title company in the locality in which such property is situated to make an investigation of and preliminary report on the title. Such fee attorney or title company shall be provided with all available information, including that contained in the Application, Appraisal and Character Report, relative to all liens, recorded or unrecorded, against such property, and any chattels used in connection therewith, which chattels are reasonably necessary to the comfortable occupancy of the premises as a home, and all available information relative to assessments, rights of way, encroachments, covenants, conditions and other matters which may in any way affect the title.

**8. Titles**

a. Character of Title Required (Ch. VI, sec. 5 a).

The Corporation requires reasonable assurance of a valid first lien upon a fee simple title or an eligible leasehold estate. Many titles have minor defects which do not materially affect the title or the security of the first mortgage thereon, such as . . . slight encroachments, etc. The Corporation is willing to accept such titles as the better class of first mortgage lenders have accepted in the past as first mortgage security, in the territory where the property is situated.

b. Restrictive Covenants—Reverter (Ch. VI, sec. 5 b).

Forfeiture and defeasance clauses are void in many states as against public policy. In other states, they are held to be restrictions which can only be taken advantage of by an injunction suit or suit for damages. In many instances, the forfeiture clause has been waived by failure on the part of the creator of the forfeiture to restrain violations, and thus an estoppel has been raised. Where there is reasonable evidence that the forfeiture or defeasance clause is unenforceable, or where the better class of mortgage lenders in the locality customarily make loans without regard to such clauses, or where a valid waiver of the reversionary right is secured and recorded, the Corporation may make or refund a loan.

9. *Chattels*

a. Search Required (Ch. VI, sec. 7 a).

Careful search must be made for any liens on any chattels used in connection with the real estate. Affidavits or other evidence should be taken upon closing as to the status of title to such chattels according to the practice of the better class of mortgage lenders in the territory. If such chattels are reasonably necessary to the comfortable use of the premises as a home, such as a furnace or plumbing fixtures, any lien thereon may be treated as a mortgage obligation or lien on the home. If the chattel is not necessary to make the same reasonably comfortable as a home, such as a bird bath, the lien cannot be taken up as other mortgages, obligations, or liens on the home.

b. Mechanics' Liens, etc. (Ch. VI, sec. 7 b).

Liens for labor and material in most states exist from the beginning of the improvement, and therefore if the improvement for which the lien is claimed started prior to June 13th, 1933, the liens are eligible for refunding and must be dealt with as any other lien provided such lien has not ex-

pired. In the case of such liens accruing after June 13th, 1933, for necessary repairs and necessary maintenance, it must be determined that the laborers, materialmen and contractors have been duly paid and releases procured in due form for recording before such liens may be refinanced.

**10. *Preliminary Certificate of Title*** (Ch. VI, sec. 20).

Upon receipt of the instructions and information mentioned above the fee attorney or title company shall make a thorough search of all public records which may disclose the status of the title and shall also make a thorough investigation of all unrecorded liens or encumbrances of which the Corporation has notice. Following such search and investigation the fee attorney or title company shall issue its signed Preliminary Certificate of Title which shall set out, among other things, the name of the person in whom title is vested, the legal status and the nature and extent of the estate of the owner therein, a complete description of the property and all objections and encumbrances whether recorded or unrecorded, including the dates of execution thereof. The Preliminary Certificate of Title shall bear the date of the completion of the title search. The form of such certificate shall have been approved by the General Counsel or Associate General Counsel in charge of the Examining Division of the Legal Department. Removable encumbrances, defects and objections, except liens including taxes and assessments to be refunded, paid, or subordinated shall be cleared, so far as possible at that time, before the Preliminary Certificate is forwarded and the fact and manner of such clearance indicated by appropriate marginal notations thereon.

**11. *Title Report—Clearing of Defects or Encumbrances*** (Ch. III, sec. 13 c).

The title report will be returned to the State or District Counsel, who ordered the same, for his examination. If the report shows objections, defects or encumbrances in addition

to the refundable liens, the applicant shall be so advised and it will be his duty to have the title cleared for closing. However, if such objections, defects or encumbrances are of a minor nature and may be cured by the simple procedure of obtaining affidavits, releases, waivers and like papers, the fee attorney or title . . . company making the report may be required to render the necessary service.

**12. *Closing Date—How Determined***

(Ch. III, sec. 13 e).

When it has been ascertained that the title is subject only to the liens to be refunded and final written consents shall have been obtained from all lien holders agreeing to exchange the liens held by them for the bonds and cash authorized by the Corporation, a day shall be fixed for closing the loan. Such closing date should be far enough ahead to allow the preparation of loan papers, vouchers and settlement sheet (Form No. 15) and the forwarding of such papers to the closing agent. A period of not more than fifteen days will ordinarily be sufficient for this purpose.

**13. *Notice of Closing Date*** (Ch. III, sec. 13 f).

The applicant and the lien holders should be notified of the date fixed for closing and instructed to be present at that time prepared to execute loan papers and deliver evidences of existing liens and to release them of record. If the lien holder is a non-resident or if he is temporarily absent and cannot be personally present at the closing date to sign the bond authorization (Form 62), or if the lien holder prefers, then Forms 86 and 87, revised, may be used. The applicant should also be given notice of the Corporation's requirements for fire and windstorm insurance and instructed to have proper policies ready for delivery on the closing date.

**14. *Loan Papers and Form No. 15 To Be Prepared by the Legal Department* (Ch. III, sec. 13 g).**

As soon as the closing date has been set the Legal Department, or the Fee Attorney if authorized to do so, will prepare the note and mortgage, or trust deed, in accordance with the regulations of the Corporation and the requirements and practice of the locality. In all cases where reconditioning work is to be done the required contracts will be prepared by the Legal Department. Uniformity and accuracy can only be assured by the preparation of the loan papers in the office of the Legal Department. After these papers have been drawn, Form No. 15 should be prepared and the file should then be sent immediately to the State Office.

**15. *Preparation of Disbursement Forms* (Ch. III, sec. 14 a).**

The State Office should prepare all necessary disbursement forms and vouchers as soon as the file is received from the District Office. . . . Inasmuch as time is an important element, the State Office should be so organized that, within 48 hours, all necessary forms may be prepared, the file properly checked and mailed to the District Office, or where so authorized the file will be mailed to the fee attorney or title company.

**16. *Forwarding of File to Fee Attorney, etc., for Closing* (Ch. III, sec. 14 b).**

The loan file accompanied by the disbursement papers will be forwarded by the District Office, for closing, to the fee attorney or other authorized loan closer on the same day that such file and papers are received from the State Office.

**17. *Taxes and Assessments***

**a. *Items Which May Be Paid in Cash* (Ch. VI, sec. 6 a).**

Taxes and assessments outstanding in the form of liens

against the home may be paid, if necessary, in cash. Liens of the United States for taxes may be taken up, as well as liens of states, counties, municipalities, and other taxing authorities. Liens of states, counties, municipalities, or other taxing authorities for assessments for improvements such as street paving, curb, sidewalk, sewer, water, and other improvements, the costs of which are assessed against specific property, may be taken up in cash.

b. Contractors' or Other Private Assessment Liens (Ch. VI, sec. 6 b).

It is not the purpose to take up with cash, under Section 4(d) of the Home Owners' Loan Act of 1933 as Amended, so called "assessment liens" which are merely private liens in the hands of contractors or other private parties and which must be enforced by legal process. Such liens may be taken up with bonds under Section 4(d) or cash under Section 4(f) of the Act.

c. Items Paid by Mortgagee and Refundable Only in Bonds (Ch. VI, sec. 6 c).

Any tax or assessment lien that has been paid by the mortgagee and thus satisfied cannot be taken up by the Corporation in cash as a tax or assessment lien but may only be refunded as a part of the mortgage indebtedness.

d. Items to Be Paid or If Unpaid to Be Deducted From Loanable Amounts (Ch. VI, sec. 6 d).

All taxes payable at the time the Corporation closes the loan shall be paid, even though time for payment of all or a part of such tax has been extended; provided, however, that where the time is extended by a statutory tax moratorium, such tax may be left unpaid, but the amount of the tax in such cases shall be deducted from the loanable amount.

e. Due and Past Due Items Which Cannot Be Paid at Closing—Escrow (Ch. VI, sec. 6 e).

Taxes due and past due which cannot be paid at the time of closing the loan, whether on account of delay by taxing

officials in arriving at the amount of such taxes, or litigation, or for other reason, shall be provided for by placing in escrow with the Corporation a sum estimated by taxing officials to be sufficient to cover such past due taxes, to be disbursed immediately when such taxes are ascertained and payable.

f. Past Due Improvement Assessments (Ch. VI, sec. 6 f).

Improvement assessments due and payable shall be paid and discharged.

g. Assessments Not Due or Payable (Ch. VI, sec. 6 g).

(1) A reasonable total annual burden of taxes and assessments of all kinds is determined to be a sum equivalent to 3 percent of the value of the property as appraised by the Corporation. No deduction shall be made from the loanable amount on any property, for levies not due at the time of making the loan, in any instance where the total annual taxes and assessments borne by the property for all purposes does not exceed a sum equivalent to 3 percent of the value of the property as appraised by the Corporation.

(2) Whenever, after title examination, it appears that on account of special assessments, which are to remain and be payable in the future, the total annual burden for taxes and assessments exceeds an amount equivalent to 3 percent of the value of the property as appraised by the Corporation, such case shall be referred to the State, Territorial, or Autonomous Loan Committee.

(3) In such case the Loan Committee after considering the total burden for taxes and assessments over and above said 3 percent, shall deduct from the loanable amount the excess amount of the special assessment. In those cases in which the annual burden of taxes, exclusive of special assessments, is equal to or greater than 3 percent of the Corporation appraisal, the full amount of such special assessment which remains and is payable in the future shall be deducted. In those cases in which the annual burden of taxes, exclusive of special assessments, is less than 3 percent of the Corporation ap-

praisal such part of the special assessment as will raise the annual burden to 3 percent shall not be deducted, but the remainder of such special assessment which remains and is payable in the future in periodical installments shall be deducted.

(4) All appraisals shall proceed as heretofore.

(5) For the purposes herein outlined special assessments are defined as payments due for street improvements, sanitary improvements, mosquito abatement, flood control, electric lighting, gas, irrigation, water stocks, and similar encumbrances, having a definite maturity date and not ordinarily classified as general taxation. . . .

h. Items Accruing After Closing (Ch. VI, sec. 6 i).

Taxes accruing after the closing of the loan should be paid by the mortgagor.

i. Tax Form 53 (Revised)—(Ch. VI, sec. 25).

Tax Form 53 (Revised) shall be carefully prepared and signed by the loan closer. Full information concerning all statutory moratoria extending the time for payment of taxes and assessments, then in force, must be set out on the reverse side of said Tax Form 53 (Revised).

## 18. *Note and Mortgage*

a. Form (Ch. VI, sec. 22 a).

The notes and bonds and the mortgages and other instruments which are taken by the Corporation to secure a first lien shall be only upon the forms approved for the respective states and territories.

b. Terms (Ch. VI, sec. 22 b).

All loans shall bear interest at the rate of 5% per annum except that loans under Section 4 (f) of the Act as amended shall be at the rate of 6% per annum. The loan instruments shall provide for monthly payments and for amortization within a period not exceeding fifteen (15) years as may be determined by the State Manager. In exceptional and unusual cases where the extreme necessities of the home owner

## APPENDIX B

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require it, the loan may be amortized quarterly, semi-annually, or annually, provided such amortization is recommended by the State Manager and the approval of the Regional Manager is first obtained. In the event the loans are made on temporary, fragile, or other houses which will not retain their value over a longer period of years, such loans shall provide for amortization in not over ten (10) years. Monthly amortization payments of not less than \$10.00 shall be required in every case, provided, however, that in cases of applicants with very small earning capacity, who cannot make such payments, the monthly amortization payment may be fixed at not less than \$5.00 or at the regular amortization rate, whichever is larger. In no event shall the monthly amortization payment be fixed at less than \$5.00.

c. Execution and Date (Ch. VI, secs. 22 c and 11).

The instruments evidencing and securing the Corporation's loan shall bear all signatures now or hereafter required by the rules and regulations. . . . Said loan instruments and the settlement sheet (Form No. 15) shall be signed in the same manner and shall bear the same date. This date shall be, as nearly as possible, the date of the actual closing and disbursement of the loan. . . .

All signatures shall be required which are necessary to give the Corporation a valid first lien upon a fee simple title or an eligible leasehold estate. In the case of loans to married persons, both husband and wife shall be required, if legal, to join in the execution of the instruments evidencing and securing the debt. Upon failure to do so, except on such legal grounds, the loan shall be declined. In loans to married persons where one spouse is legally incompetent, a loan may be closed without the signature of such spouse, provided that the Corporation secures a valid first lien without such signature. In loans to married persons where one spouse is legally competent to sign, but will not do so, the loan may be closed without the signature of such spouse provided the Corporation

will secure a valid first lien, and provided further that all such cases shall be forwarded to the Loan Review Division in Washington, with a full statement of the situation and the recommendation of the State Manager and approval obtained before closing.

In States where minor home owners are otherwise eligible and can legally create a valid first lien to secure a loan, loans may be made, upon the approval of the State Counsel, to such persons on condition that the adults living on the home property endorse the note to this Corporation.

**19. Clearance of Encumbrances** (Ch. VI, sec. 21).

. . . Where the Preliminary Certificate shows an outstanding assessment lien payable in the future, and where the loanable amount has been reduced under proper authority by a sum equal to such lien, the State or Wholesale Counsel or the Counsel of a District or Autonomous Office shall approve the waiver of payment of such lien by the following initialed marginal notation upon the Preliminary Certificate of Title: "Payment Waived—Loanable Amount Reduced Accordingly". Where the method of clearance has been approved and the closing papers drawn, the preliminary certificate shall then be returned to the loan closer who shall dispose of all such encumbrances, defects and objections according to instructions. The fact and manner of clearance of all remaining encumbrances, defects and objections, noted in the Preliminary Certificate of Title, whether recorded or unrecorded, shall be evidenced by marginal notations made thereon by the loan closer and by him initialed. Such marginal notations should be concisely stated, yet sufficiently complete to enable a stranger to determine the steps taken to clear such encumbrances, defects and objections. If any objections are waived, such fact and the reasons therefor should be evidenced by such initialed marginal notations.

**20. Supplemental Title Search** (Ch. VI, sec. 23).

Upon return of the preliminary Certificate of Title to the loan closer for closing with directions of counsel in the Legal Department such loan closer shall make a thorough supplementary search of the public records in order to ascertain the status of the title at the date of closing the loan. The fact of such search and any encumbrances, defects, or objections disclosed thereby shall be evidenced by a To-date Report, either as a separate instrument or as a part of the Final Certificate, as the State Counsel may direct.

**21. Recovery of Homes Lost by Foreclosure—Junior Liens Which Must Be Disposed Of**  
(Ch. VI, sec. 9 b).

No recovery may be effected unless outstanding obligations which were junior liens on the property prior to foreclosure, and all general judgments against the applicant are properly canceled or subordinated. If such liens or judgments were in existence on or prior to June 13th, 1933, and would attach upon the property being deeded back to the applicant, they may be refunded by the Corporation. If they were not so outstanding on June 13th, 1933, or if they would not attach as liens they cannot be refunded, but nevertheless must be released or subordinated to the lien of the Corporation before the Corporation may proceed to make a loan.

**22. Insurance****a. Insurance Policies to Be Obtained From Applicant**  
(Ch. III, sec. 14 c).

At the time of closing the loan the fee attorney, or other authorized closing representative, will obtain from the applicant or mortgagee all insurance policies still in force and such new policies as have been required in accordance with the insurance schedule and instructions prepared by the Insurance Section.

**b. Amount of Insurance Required** (Ch. XI, sec. 2 e).

(1) The amount of fire insurance required shall be as follows:

(a) If amount of loan is more than the replacement value, then full insurance to value is required on all buildings.

(b) If amount of loan is equal to or less than the replacement value, then fire insurance is required on the main dwelling in an amount equal to the loan, if possible, and in addition, an amount equal to 50% of the replacement value on outbuildings valued at \$200.00 or more, is required.

(2) The amount of windstorm or other necessary insurance coverage to be required in certain territories will be specified by the General Manager.

### **23. *Closing and Disbursing Loans* (Ch. VI, sec. 26).**

Encumbrances (other than liens to be refunded), defects and objections must be properly cleared and supplemental title search disclose no new matters, before proceeding with closing, filing for record of closing papers, and disbursement. Disbursement of cash and bond authorizations shall be made immediately after filing for record of Corporation mortgage or other instrument securing the loan, and in any event within seventy-two hours thereafter, provided the Corporation will obtain a valid first lien. If, under the recording or other laws of a particular state or territory, it is necessary to withhold disbursement for a longer period after the filing for record, then disbursement shall be made as soon as a valid first lien can be obtained. Unless arrangements have been completed for such disbursement, no mortgage or other instrument to secure the Corporation's lien, releases or transfers of liens, or other closing instruments shall be filed for record. In states or territories where it is legally necessary to deviate from the foregoing rule in order to obtain a valid first lien, the State or Territorial Counsel shall advise the General Counsel and the Regional Counsel of the legal necessity therefor, together with a statement of the necessary time

## APPENDIX B

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which must elapse after the filing for record before disbursement may be safely made. Except as hereinbefore provided in this section, no deviation from its provisions will be permitted in the loan closing procedure, unless advance approval of the Regional Counsel and General Counsel has been obtained.

If unforeseen obstacles beyond the control of the loan closer arise after the loan instruments have been executed but before filing for record and such closing and filing are not completed within thirty days from the date of such papers, the loan instruments shall be canceled and Form No. 15, checks, and Form No. 62 shall be returned to the State Office for cancelation. Closing and disbursement shall be made on new papers in accordance with the requirements contained in this Chapter.

All of the original instruments evidencing the debt to be refunded shall be produced and canceled at the time of closing or the loan shall not be closed. In jurisdictions where cancelation is not in accordance with the local practice, the note and mortgage or other instrument shall be assigned to the Corporation or release thereof delivered in due form for recording. In the case of a lost instrument evidencing the debt the same must have been legally reestablished by Court proceedings or otherwise, or the Corporation must be protected by security approved by the General Counsel. The Recorder's Certificate (Form No. 13) shall, wherever possible, be obtained when the mortgage is filed for record and shall be made a part of the loan file.

Before a loan is closed, there shall be in the file all necessary mortgagee's consents on the latest revised form in use when such consent was executed, for the definite amount to be paid to such mortgagees without conditions or exceptions other than for interest to the date of settlement. In the event that, after a mortgagee's consent has been obtained, it is discovered that such consent does not represent the correct amount

to be paid or contains exceptions and conditions other than for interest to date of settlement, then a new consent on the latest revised form shall be secured for the correct amount without any conditions or exceptions except for interest to date of settlement. No consent shall be obtained by any official of this Corporation except on the latest revised form in use at the time and for a definite amount without conditions and exceptions other than for interest to date of settlement. No deviations from the provisions of this paragraph will be permitted without the approval of the General Counsel or an Associate General Counsel.

**24. *Instruments Refunded*** (Ch. VI, sec. 28).

When a loan is closed the loan closer should have in hand the original note or other evidences of the debt refunded, together with the original instruments securing such obligations and releases of the same. The note or other instruments evidencing the debt refunded shall be canceled on their faces, or in jurisdictions where such cancelations are not in accordance with local practice the note or mortgage or other instrument shall be assigned to the Corporation or releases thereof delivered in due form for recording. All of these original instruments should be included in the loan file. If the original note or other evidence of the refunded debt cannot be obtained for enclosure in the loan file the loan closer shall procure a true copy of each of them and certify that it is such and that the original of each was canceled on its face. If the original recorded or unrecorded instrument securing the refunded debt cannot be obtained the loan closer shall obtain a copy which shall then be certified by him as to correctness and included in the file. If the contract sought to be refunded was oral, a statement of the substance of the contract supported by affidavits of the parties thereto, must have been approved, before the loan is closed, by the Loan Review Division in Washington and must be included in the file.

**25. Evidence of Custodian's Authority**

a. (Ch. VI, sec. 29).

Whenever a receiver, administrator or other custodian of the assets of another agrees to accept bonds of the Corporation or cash in exchange for any of such assets and executes a release, the loan closer, after proper investigation, shall execute a certificate that such receiver, administrator or other custodian was duly appointed and authorized to accept such settlement and to execute a valid release thereof.

b. (Ch. VIII, sec. 3 g).

In dealing with Receivers, Conservators, Agents or Trustees it is, in most cases, necessary to secure a Court Order approving the refunding of the loan. In all instances where Court Authorization is necessary a certified copy of the Court Order authorizing the liquidator or receiver to accept the Corporation's bonds and to give a valid release, or satisfactory evidence thereof as shown by a certificate (Form 112A) of an attorney for the Corporation, must accompany each loan file before it is forwarded to the Regional Office. The Comptroller of the Currency has issued a blanket authorization to accept the Corporation's bonds in all cases where the claim of a national bank is to be fully liquidated. When mortgage or other eligible liens held by national banks in the custody of the Comptroller of the Currency require adjustment, authority to accept such adjustments must be obtained from the Comptroller of the Currency and placed in the file. All matters relating to wholesale handling which require contact with the offices of the Comptroller of the Currency or any other Government department shall be directed through the channels of the Wholesale Department at Washington.

**26. Final Certificate of Title** (Ch. VI, sec. 27).

After a loan has been closed, the loan closer shall execute a Final Certificate of Title on a form approved by the General Counsel or Associate General Counsel in charge of the Exam-

ining Division, certifying that the mortgage or other instrument securing the indebtedness to this Corporation has been duly filed for record, giving the date together with the book and page where recorded, or, the Clerk's or Register's filing or document number, and certifying that the full consideration for said note or other obligation and mortgage has passed to the mortgagor, and that such mortgage is a valid first lien in accordance with the regulations contained in this Manual.

**27. Evidence of Title** (Ch. VI, sec. 30).

Each closed loan file shall contain one of the following evidences of title: An abstract and a certificate of the closing attorney as to title, or a policy of title insurance, or a certificate of title. The form of the title insurance policy or of the certificate of title must be approved by the General Counsel or Associate General Counsel in charge of the Examining Division. Such evidence of title shall contain a legal description of the property and a statement of the nature of the borrower's estate therein and the encumbrances thereon.

**28. Review by Legal Department** (Ch. VI, sec. 31).

When the loan has been closed, the loan closer should forward the file to the State, District or Autonomous Office serving the territory, where it should be inspected by the Counsel in such office and the title evidence approved if satisfactory. If there be an approved contract for reconditioning, such Counsel shall obtain and forward, as soon after the completion thereof as is possible, all necessary receipts and releases relative to materialmen's and laborers' liens in accordance with the reconditioning provisions of this Manual.

**29. Split File**

a. Shipment from District Office to State Office (Ch. III, sec. 14 h).

On the same day that the District Office receives the

## APPENDIX B

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closing papers from the fee attorney or other closing representative, the Legal Department will forward to the State Office the original bond or note to the Corporation, Forms No. 15 (Settlement Sheet) and No. 62 (Duplicate Bond Authorization) together with Form No. 13 which is the Recording Officer's receipt for the mortgage to the Corporation. The remainder of the file is to follow as soon as the abstract or title opinion is properly extended to include the mortgage or trust deed to the Corporation, final certificate of title obtained and all papers pertaining to the loan brought together, except waivers of mechanics and materialmen's liens and the required receipts, the certification of completed work by the Reconditioning Department and the acceptance of the work by the mortgagor when reconditioning is to be done. All papers and material remaining in the file in any way relating to the handling or closing of the loan shall be sent to the State Office for transmittal to the Regional Treasurer. In those cases where there has been reconditioning, the certification of completion by the Reconditioning Department, the acceptance by the mortgagor together with waivers of mechanics and materialmen's liens and all required receipts shall be forwarded to the State Office for transmittal to the Regional Treasurer as soon as the work has been completed.

b. *Shipment from State Office to Regional Office*  
(Ch. III, sec. 14 i).

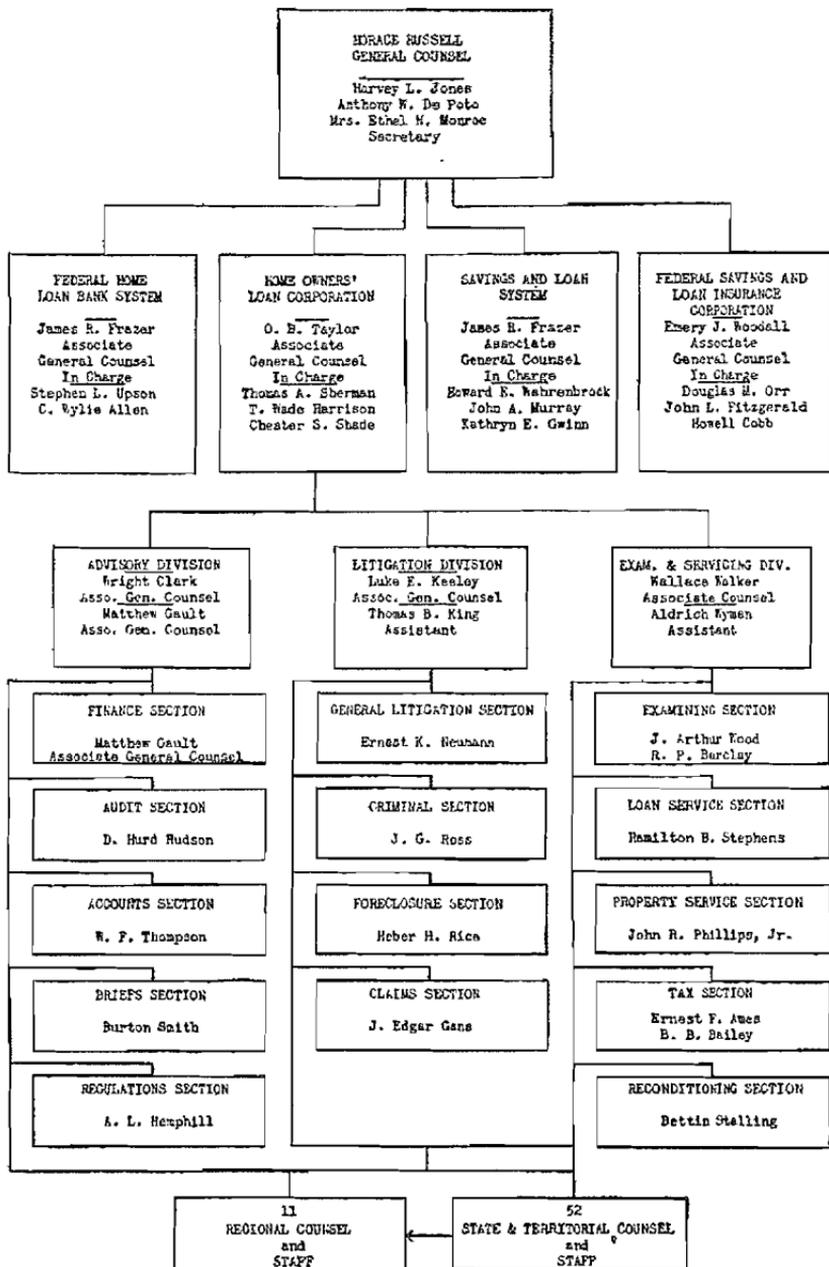
Promptly upon receipt by the State Office of the note, receipt and forms next above mentioned and where possible on the same day, such note, receipt and forms shall be forwarded to the Regional Treasurer together with transmittal Form No. 46, sufficiently completed to cover the items forwarded. The remainder of the file shall likewise be forwarded to the Regional Treasurer, with proper covering Form No. 46, listing the items being forwarded as soon as received and checked in the State Office.

APPENDIX C

ORGANIZATION CHART  
FEDERAL HOME LOAN BANK BOARD  
LEGAL DEPARTMENT

LEGAL DEPARTMENT  
 FEDERAL HOME LOAN BANK BOARD  
 WASHINGTON

Appendix C



Number of attorneys on Salary basis, nation-wide - 764  
 Number of attorneys on Fee basis, nation wide - 8,360

Revision approved by Horace Russell, General Counsel, Feb. 1, 1936  
 Prepared by Records Section