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**FEDERAL REGISTER**  
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Washington, Wednesday, March 13, 1940

*The President*

EXECUTIVE ORDER

AMENDING SECTION 3 OF EXECUTIVE ORDER No. 8044 OF JANUARY 31, 1939, AND APPOINTING ATTORNEY GENERAL ROBERT H. JACKSON A MEMBER OF THE COMMITTEE TO INVESTIGATE AND REPORT METHODS FOR SELECTING AND PROMOTING CERTAIN PERSONNEL IN CIVIL SERVICE

By virtue of and pursuant to the authority vested in me by the Constitution, by section 1753 of the Revised Statutes (U.S.C., title 5, sec. 631), by the Civil Service Act of January 16, 1883 (22 Stat. 403, 404), and as President of the United States, it is ordered that section 3 of Executive Order No. 8044 of January 31, 1939,<sup>1</sup> be and it is hereby amended to read as follows:

3. A committee is hereby appointed consisting of the following:

- Mr. Justice Stanley Reed, Chairman
- Mr. Justice Felix Frankfurter
- Mr. Justice Frank Murphy
- Attorney General Robert H. Jackson
- William H. McReynolds, Administrative Assistant to the President
- Mr. Leonard D. White
- General Robert E. Wood
- Mr. Gano Dunn

Such committee shall make a comprehensive study of methods of recruiting, testing, selecting, promoting, transferring, removing and reinstating personnel for the positions to which this order relates, and report to the President as soon as possible its recommendations thereon.

FRANKLIN D ROOSEVELT

THE WHITE HOUSE,  
March 9, 1940.

[No. 8371]

[F. R. Doc. 40-1004; Filed, March 11, 1940; 3:21 p. m.]

<sup>1</sup> 4 F.R. 497.

EXECUTIVE ORDER

MODIFICATION OF EXECUTIVE ORDER No. 6957 OF FEBRUARY 4, 1935, WITHDRAWING PUBLIC LANDS

ALASKA

By virtue of and pursuant to the authority vested in me by the act of June 25, 1910, c. 421, 36 Stat. 847, as amended by the act of August 24, 1912, c. 369, 37 Stat. 497, Executive Order No. 6957 of February 4, 1935, withdrawing certain lands in Alaska for classification and other purposes, is hereby modified to the extent necessary to permit the Secretary of the Interior to issue a coal prospecting permit to the Alaska Matanuska Coal Company under section 3 of the leasing act of October 20, 1914, c. 330, 38 Stat. 742, as amended by the act of March 4, 1921, c. 152, 41 Stat. 1363, for the following-described lands:

*Seward Meridian*

T. 19 N., R. 2 E.,  
sec. 21, SE $\frac{1}{4}$ ;  
sec. 22, N $\frac{1}{2}$ , SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$ ;  
sec. 27, N $\frac{1}{2}$ , SW $\frac{1}{4}$ ;  
sec. 28, E $\frac{1}{2}$ .

FRANKLIN D ROOSEVELT

THE WHITE HOUSE,  
March 9, 1940.  
[No. 8372]

[F. R. Doc. 40-1005; Filed, March 11, 1940; 3:21 p. m.]

EXECUTIVE ORDER

DESIGNATING THE HONORABLE ANGEL R. DE JESUS AS ACTING JUDGE OF THE DISTRICT COURT OF THE UNITED STATES FOR PUERTO RICO

By virtue of the authority vested in me by section 41 of the act entitled "An Act to provide a civil government for Puerto Rico, and for other purposes", approved March 2, 1917, as amended by section 2 of the act of March 26, 1938, 52 Stat. 118 (U. S. C., title 48, sec. 863), I hereby designate and authorize the Honorable

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Angel R. de Jesus, Associate Justice of the Supreme Court of Puerto Rico, to perform and discharge the duties of Judge of the District Court of the United States for Puerto Rico and to sign all necessary papers and records as Acting Judge of the said Court, without extra commission, during the absence, illness, or other legal disability of the Judge thereof during the current calendar year.

FRANKLIN D ROOSEVELT

THE WHITE HOUSE,  
March 9, 1940.

[No. 8373]

[F. R. Doc. 40-1006; Filed, March 11, 1940; 3:21 p. m.]

Rules, Regulations, Orders

TITLE 7—AGRICULTURE

CHAPTER I—AGRICULTURAL MARKETING SERVICE

PART 51—FRUITS, VEGETABLES, AND OTHER PRODUCTS (INSPECTION AND CERTIFICATION)

AMENDMENT NO. 4 TO SERVICE AND REGULATORY ANNOUNCEMENTS NO. 93, SECOND REVISION

By virtue of authority vested in the Secretary of Agriculture by the provision

in the act of Congress entitled "An act making appropriations for the Department of Agriculture \* \* \* for the fiscal year ending June 30, 1940," approved June 30, 1939 (53 Stat. 939), I, H. A. Wallace, Secretary of Agriculture, do hereby give public notice of the following amendment to become effective immediately to the Rules and Regulations of the Secretary of Agriculture governing the inspection and certification of fruits, vegetables, and other products (Service and Regulatory Announcements No. 93, Second Revision<sup>1</sup>) approved June 24, 1936.

Amend Regulation 8 by adding Section 5 which shall read:

§ 51.42 *Interfering with an inspector.* Any further benefits of the act may be denied to an applicant who either personally or through an agent or representative interferes with or obstructs, by intimidation, threats, assault, or any other improper means, an inspector in the performance of his duties.\* [Sec. 5]

Done at Washington, D. C., this 12th day of March 1940. Witness my hand and the seal of the Department of Agriculture.

[SEAL] H. A. WALLACE,  
Secretary of Agriculture.

[F. R. Doc. 40-1007; Filed, March 12, 1940; 10:45 a. m.]

TITLE 17—COMMODITY AND SECURITIES EXCHANGES

CHAPTER II—SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934

AMENDMENT OF RULE X-15AJ-1 (B)

The Securities and Exchange Commission, deeming it appropriate in the public interest, pursuant to authority conferred upon it by the Securities Exchange Act of 1934, particularly Sections 15A and 23 (a) thereof [Sec. 15A, 52 Stat. 1070; 15 U.S.C. 780-3; Sec. 23, 48 Stat. 901; Sec. 8, 49 Stat. 1379; 15 U.S.C. 78w and Sup. III], hereby amends Rule X-15AJ-1 (b)<sup>2</sup> [Sec. 240.15AJ-1 (b)] by adding thereto the following subsection:

(3) If changes in the information called for in items (1) and (2) of Exhibits C and D are reported in any record which is published at least once a month by the association and promptly filed in triplicate with the Commission, no current supplements need be filed with respect to Exhibits C and D.

Effective March 12, 1940.  
By the Commission.

[SEAL] FRANCIS P. BRASSOR,  
Secretary.

[F. R. Doc. 40-1013; Filed, March 12, 1940; 11:26 a. m.]

<sup>1</sup> 1 F.R. 654.  
<sup>2</sup> 4 F.R. 3134.

SECURITIES EXCHANGE ACT OF 1934

AMENDMENT TO FORM X-15AJ-2

The Securities and Exchange Commission, deeming it appropriate in the public interest, pursuant to authority conferred upon it by the Securities Exchange Act of 1934, particularly Sections 15A and 23 (a) thereof, hereby amends Form X-15AJ-2<sup>1</sup> as follows:

(a) Item (3) of Exhibit C and Exhibit D is hereby deleted.

(b) Item (4) of Exhibit C and Exhibit D is hereby renumbered Item (3).

Effective March 12, 1940.

By the Commission.

[SEAL] FRANCIS P. BRASSOR,  
Secretary.

[F. R. Doc. 40-1014; Filed, March 12, 1940; 11:27 a. m.]

TITLE 19—CUSTOMS DUTIES

CHAPTER I—BUREAU OF CUSTOMS

[T.D. 50108]

COUNTERVALUING DUTIES ON BRITISH SUGAR<sup>2</sup>

To Collectors of Customs and Others Concerned:

The Bureau is in receipt of official information to the effect that a new schedule of duty payments and drawback rates on British sugar became effective on September 27, 1939. The rates now in effect grant allowances in certain instances in excess of the amounts of duties collected on the imported raw sugar.

Since the excesses of drawback over the duties collected constitute bounties within the meaning of section 303 of the Tariff Act of 1930, I have estimated, determined, and hereby declare the net amounts of such bounties per pound of refined sugar from the United Kingdom of Great Britain and Northern Ireland to be as follows:

(1) When the British drawback of customs duty is allowed at the rate of 21s 0d per cwt. of 112 pounds, the net amount of the bounty is:

2.25d minus (2.13088566d × the percentage of sucrose in imported sugar.)

(2) When the British drawback of customs duty is allowed at the rate of 16s 8.7d per cwt. of 112 pounds, the net amount of the bounty is:

1.7919643d minus (1.69658907d × the percentage of sucrose in imported sugar.)

(3) When the British drawback of customs duty is allowed at the rate of 13s 3.4d per cwt. of 112 pounds, the net amount of the bounty is:

<sup>1</sup> 4 F.R. 3134.

<sup>2</sup> This document affects the tabulation in 19 CFR 14.22.

1.4232143d minus (1.34726355d × the percentage of sucrose in imported sugar.)

(4) When the British drawback of customs duty is allowed at the rate of 15s 5.7d per cwt. of 112 pounds, the net amount of the bounty is:

1.7026786d minus (1.5700766d × the percentage of sucrose in imported sugar.)

Collectors of customs, therefore, will collect additional duties on British refined sugar equal to the net amounts of the bounties or grants in accordance with the rate or rates applicable as set forth above when imported directly or indirectly and entered for consumption, or withdrawn from warehouse for consumption, after the publication of this decision in the weekly Treasury Decisions.

The declarations of bounty herein published are supplemental to those published in T. Ds. 49355 and 49981<sup>1</sup> which declarations remain in full force and effect in respect of sugar imported from Great Britain and Northern Ireland upon which drawback was paid at any of the rates specified therein.

Consular invoices covering refined sugar produced in the United Kingdom of Great Britain and Northern Ireland and imported into the United States shall show the rate or rates of the drawback claimed or allowed, or to be claimed or allowed, thereon.

In any case in which the drawback of customs duties allowed, as stated in the invoice, does not coincide with any of the rates of drawback specified in this decision or T. Ds. 49355 and 49981, there shall be collected at the time of entry, in addition to the estimated regular duties, such an amount as in the opinion of the collector is sufficient to secure payment of any countervailing duty which may be determined or estimated and declared in respect of the merchandise. Liquidation of the entry shall be suspended and the entry and related papers submitted to the Bureau promptly for determination or estimation and declaration of the net amount of bounty or grant paid or bestowed in respect of the sugar and the net amount of countervailing duties to be assessed and collected thereon. (Sec. 303, 46 Stat. 687; 19 U.S.C., 1303)

[SEAL] W. R. JOHNSON,  
Acting Commissioner of Customs.  
Approved, March 8, 1940.

JOHN L. SULLIVAN,  
Acting Secretary of the Treasury.

[F. R. Doc. 40-1016; Filed, March 12, 1940; 11:47 a. m.]

<sup>1</sup> 3 F.R. 241; 4 F.R. 4251.

**TITLE 24—HOUSING CREDIT**  
**CHAPTER V—FEDERAL HOUSING ADMINISTRATION**

**PART 532—ADMINISTRATIVE RULES UNDER SECTION 207, NATIONAL HOUSING ACT**

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**LARGE SCALE RENTAL HOUSING RULES (FOR MORTGAGES IN EXCESS OF \$100,000)**

*Application and Commitment*

§ 532.1 *Information for preliminary examination.* Information required for preliminary examination of a Rental Housing project under section 207 shall be executed by an approved mortgagee or by an authorized representative of said mortgagee and by the sponsors of such project, and shall be submitted through the local Federal Housing Administration office (executed in triplicate), in the case of a new construction project, on F. H. A. Form 2013 and in the case of a rehabilitation project on such form as may be prescribed by the Administrator. No application will be considered unless the exhibits called for by such form are furnished. The submission of such form will be deemed to be the sponsor's agreement to pay in accordance with the provisions of this section and on account of the costs of appraisal and inspection by the Administrator, the following sums:

(a) One dollar and fifty cents per thousand of the face amount of the mortgage loan applied for (referred to as "Application Fee") upon submission of application, and

(b) A sum (referred to as "Commitment Fee") which when added to the Application Fee will aggregate \$3.00 per thousand of the face amount of the mortgage loan approved for insurance by the Administrator, and which shall be paid at the time of delivery of the commitment letter.

However, in the case of a Public Housing project, the fee to be paid under this section shall be fixed by the Administrator, but shall not exceed \$3.00 per thousand of the original face amount of the mortgage.

If the Administrator shall issue a commitment as herein provided and the commitment fee shall not be paid and delivery accepted by the applicant within the period of time specified in the commitment letter, such commitment shall, unless the period for such payment be specifically extended, be considered void

and of no effect. If an application to increase the amount of the insured mortgage is presented after the commitment, a new application fee based upon the amount of such increase must be paid at the time the application for such increase is filed which payment will be subject to adjustment as above provided in accordance with the amount of the increase approved by the Administrator. If the amount of the insured mortgage is increased after insurance either by amendment or by the substitution of a new insured mortgage, the fees herein provided for shall be based upon the amount of such increase.

If an application is rejected upon preliminary examination as determined by the Administrator the application fee will be returned to the applicant. Otherwise fees paid as above provided shall not be returned. In special cases the Administrator may charge prior to closing an additional fee not exceeding \$2.00 per thousand of the face amount of the loan approved for insurance.\*† [Sec. I, par 1]

§ 532.2 *Evidence of acceptance of mortgage.* Upon approval of an application and payment of the commitment fee, acceptance of the mortgage for insurance will be evidenced by the issuance of a commitment setting forth the terms and conditions upon which the mortgage will be insured, including special requirements applicable to the project and requiring the submission in final form within a time specified of all appropriate documents, drawings, plans, specifications, estimates, and other instruments evidencing full compliance satisfactory to the Administrator with these Rules and with such terms and conditions. No commitment shall be valid unless signed by the Administrator or his duly authorized agent, and shall be effective for a stated period, not in excess of 120 days, and may be renewed in such manner as the Administrator may from time to time specify.\*† [Sec. I, par. 2]

#### *Eligible Mortgages*

§ 532.3 *Mortgage forms.* The Administrator does not furnish mortgage forms for Large Scale projects. The forms prescribed for section 207 Small Scale projects, or those customarily used in any particular jurisdiction, if so modified and amplified as to include the mat-

\* §§ 532.1 to 532.25, inclusive (covering Large Scale Rental Housing Rules), and §§ 532.26 to 532.57, inclusive (covering Small Scale Rental Housing Rules) are issued under authority contained in Section 211 of the National Housing Act, as amended. These rules supersede all previous Rules heretofore issued under section 207 of the National Housing Act.

† The source of §§ 531.1 to 532.25, inclusive, is Large Scale Rental Housing Insurance for Mortgages in Excess of \$100,000, Administrative Rules and Regulations under section 207 of Title II of the National Housing Act, issued March 1, 1940 (FHA Form 2012). The source of §§ 532.26 to 532.57, inclusive, is Small Scale Rental Housing Insurance for Mortgages Not Exceeding \$100,000, Administrative Rules and Regulations under section 207 of Title II of the National Housing Act, issued March 1, 1940 (FHA Form 2012 (a)).

ters herein set forth, and if otherwise satisfactory to the Administrator, will be approved.\*† [Sec. II, par. 1]

§ 532.4 *Eligibility for insurance.* In order to be eligible for insurance under these Rules a mortgage shall create a first lien securing a principal obligation in excess of \$100,000 but not in excess of \$5,000,000, and such part thereof as may be attributable to dwelling use shall not exceed \$1,350 per room, depending upon the location of the project and local building costs and rental conditions. The principal obligation of such mortgage shall not exceed eighty per centum (80%) of the amount which the Administrator estimates will be the value of the property or project when the proposed improvements are completed: Provided, That such mortgage shall not in any event exceed the amount which the Administrator estimates will be the cost of the completed physical improvements on the property or project, (inclusive of, in the case of a rehabilitation project, the Administrator's estimate of the depreciated reproduction cost of salvageable existing improvements, and) exclusive of the following: Public utilities except lead ins from abutting streets to the project; public streets except approaches from abutting streets to private streets in the project; abutting sidewalks and curbing outside the project site; real estate taxes, interest on the mortgage, hazard insurance, owner's liability insurance and other insurance customarily payable by the mortgagor; organization and legal expenses; financing charges; and miscellaneous charges during or incidental to construction and customarily payable by the mortgagor, including but not limited to Federal Housing Administration appraisal and inspection fees and mortgage insurance premium, title and recording expenses, and cost of surveys and contour maps.

With respect to rehabilitation projects the following limitations shall also apply:

(a) No mortgage shall be eligible unless the Administrator's estimate of the cost of contemplated new physical improvements on the site shall be equivalent to at least fifty per centum (50%) of the mortgage to be insured.

(b) The mortgage shall not exceed eighty per centum (80%) of the aggregate of the Administrator's estimates of (i) the cost of the new physical improvements on the site, (ii) the fair market price of the entire property before the contemplated new improvements, or if acquired within one year prior to the date of application for mortgage insurance, of the purchase price, whichever is the lesser, and (iii) carrying charges and incidental expenses during construction.\*† [Sec. II, par. 2]

§ 532.5 *Maturity.* The mortgage shall have a maturity satisfactory to the Administrator, depending upon the risk involved and the general character of the

project, and shall contain complete amortization or sinking-fund provisions satisfactory to the Administrator.\*† [Sec. II, par. 3]

§ 532.6 *Payment requirements.* The mortgage shall provide for periodic payments by the mortgagor to the mortgagee on account of interest, principal, and mortgage insurance, not less frequently than every three (3) months.\*† [Sec. II, par. 4]

§ 532.7 *Interest rate.* The mortgage shall bear interest at such rate, not exceeding four per centum (4%) per annum, as may be agreed upon between the mortgagor and the mortgagee. All charges made in connection with the mortgage transaction shall be subject to the approval of the Administrator.\*† [Sec. II, par. 5]

§ 532.8 *Release provisions.* The mortgage shall cover the entire property included in the housing project. Where the project consists principally of single-family houses the mortgage may include appropriate provisions for the release from the lien thereof of any such house and the land upon which it is located in consideration of the payment to the mortgagee, in reduction of the principal of the mortgage, of an amount set forth in a schedule attached to and forming part of said mortgage. Such mortgages shall provide that the released property be subject to deed restrictions, approved by the Administrator at the time of the insurance of the mortgage and providing to the properties remaining under the mortgage adequate protection against adverse influences. Where the mortgage does not contain such release provisions no property shall, except with the consent of the mortgagee and the Administrator, be released from the lien thereof so long as the mortgage insurance is in force.\*† [Sec. II, par. 6]

§ 532.9 *Covenant against liens.* The mortgage, except in the case of Public Housing projects, shall contain a covenant against the creation by the mortgagor of liens against the property inferior to the lien of the mortgage.\*† [Sec. II, par. 7]

§ 532.10 *Covenants for fire insurance.* The mortgage shall contain a covenant binding the mortgagor to keep the premises insured against fire and such other hazards as the Administrator may stipulate, in companies and in amounts satisfactory to the Administrator. The policies evidencing such insurance shall have attached standard form mortgagee clause making loss, if any, payable to the mortgagee, and the Administrator, as interest may appear.\*† [Sec. II, par. 8]

§ 532.11 *Soundness of property.* No mortgage shall be accepted for insurance unless the Administrator finds that the property or project with respect to which the mortgage is executed is economically sound.\*† [Sec. II, par. 9]

§ 532.12 *Provisions for accumulation of next premium.* The mortgage shall provide for payments by the mortgagor to the mortgagee on each interest pay-

ment date of an amount sufficient to accumulate in the hands of the mortgagee one payment period prior to its due date, the next annual mortgage insurance premium payable by the mortgagee to the Administrator. Such payments shall continue only so long as the contract of insurance shall remain in effect. The mortgage shall provide that upon the payment of the mortgage before maturity, the mortgagor shall pay the adjusted premium charge referred to in § 533.3.\*† [Sec. II, par. 10]

§ 532.13 *Application of payments.* All periodic payments to be made by the mortgagor to the mortgagee shall be added together and the aggregate amount thereof shall be paid by the mortgagor upon each periodic payment date in a single payment. The mortgagee shall apply the same to the following items in the order set forth:

- (a) premium charges under the contract of insurance;
- (b) ground rents, taxes, special assessments, and fire and other hazard insurance premiums;
- (c) interest on the mortgage;
- (d) amortization of the principal of the mortgage.

Any deficiency in the amount of any such aggregate periodic payment shall constitute an event of default under the mortgage.\*† [Sec. II, par. 11]

§ 532.14 *Prevailing wage requirements.* No advance under any mortgage insured pursuant to the provisions of section 207 of the National Housing Act, as amended, shall be eligible for insurance unless there is filed with the application for such advance a certificate or certificates in the form required by the Administrator certifying that the laborers and mechanics employed in the construction of the dwelling or dwellings or the housing project involved have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor prior to the beginning of construction and after the date of the filing of application for insurance. This Section shall be effective only as to mortgages upon which an application for mortgage insurance is filed after June 3, 1939.\*† [Sec. II, par. 12]

#### *Eligible Mortgages*

§ 532.15 *Classification of mortgages.* In order to be eligible for insurance as a mortgagor of a Rental Housing project under section 207 such mortgagor must be—

- (a) a private corporation, association, cooperative society which is a legal agent of the owner-occupants, or trust (referred to in these Rules and Regulations as "mortgagor," "corporation," or "mortgagor corporation"), formed or created, with the approval of the Administrator, for the purpose of (1) rehabilitating slum

or blighted areas, or (2) providing housing for rent or sale, and possessing powers necessary therefor and incidental thereto, which corporation, association, cooperative society, or trust, until the termination of all obligations of the Administrator under such insurance, is regulated or restricted by the Administrator as to rents or sales, charges, capital structure, rate of return, and methods of operation. Such regulation or restriction shall remain in effect until such time as the mortgage insurance contract terminates without obligation upon the Administrator to issue debentures as a result of such termination. So long as such contract of insurance is in effect, the corporation, association, cooperative society, or trust shall engage in no business other than the construction and operation of a Rental Housing project or projects; or

- (b) a Federal or State instrumentality, a municipal corporate instrumentality of one or more States, or a limited dividend corporation formed under and restricted by Federal or State housing laws as to rents, charges, capital structure, rate of return, or methods of operation (projects of such mortgagors are herein referred to as "Public Housing projects").\*† [Sec. III, par. 1]

§ 532.16 *Definition of term "slum or blighted area".* The term "slum or blighted area" means any area where dwellings predominate which, by reason of dilapidation, overcrowding, faulty arrangement or design, lack of ventilation, light or sanitation facilities, or any combination of these factors, are detrimental to safety, health, or morals.\*† [Sec. III, par. 2]

#### *Supervision of Mortgages*

§ 532.17 *In general.* In the case of an eligible mortgagor described in § 532.15 (b), the Administrator is not required under the Act to regulate or restrict the mortgagor. Such mortgagor, however, must have initial funds which may be considered in lieu of the equity required of other mortgagors. Such funds (which may be in the form of government loans, grants or subsidies, or in other form) if sufficient in amount will be considered satisfactory provided they do not create a lien against the property prior to that of the insured mortgage. Liens inferior to the lien of the insured mortgage may be allowed against properties of such mortgagors.

Supervision of other mortgagors is required by the provision of Section 207 of the Act that such mortgagors shall be regulated or restricted by the Administrator. Such regulation or restriction will be set forth in the certificate of incorporation or other instrument under which the mortgagor is created (hereinafter referred to as the "charter") and will be made effective through the issuance of certain shares of special stock (or other evidence of a beneficial interest in the mortgagor) which stock or interest will acquire majority voting rights in the event of default under the mortgage

or violation of a provision of the charter, but only for a period coexistent with the duration of such default or violation. Such special stock or interest shall be held and all voting rights with respect thereto exercised by the Administration, except qualifying shares for the Administrator's representatives. When the right of the Administrator to regulate or restrict the mortgagor shall terminate as above provided, the shares of special stock or other evidence of interest shall be surrendered by the Administrator upon reimbursement for his payments therefor, plus accrued dividends thereon.\*† [Sec. IV]

§ 532.18 *Required supervision of private mortgagors.* The following are the items which will be regulated or restricted to the extent indicated, except in the case of mortgagors of Public Housing projects:

- (1) *Rents and charges.* Except as hereinafter provided,

(a) No charge shall be made by the mortgagor corporation for the accommodations offered by the project in excess of a rental schedule to be filed with the Administrator prior to the opening of the project for rental, which schedule shall be based upon a maximum average rental fixed prior to the insurance of the mortgage. Such schedule shall not thereafter be changed except upon application of the mortgagor corporation and the written approval of the Administrator. In establishing such maximum and in passing upon applications for changes, consideration will be given the following and similar factors:

- (i) Rental income necessary to maintain the economic soundness of the project.

(ii) Relation of the proposed rentals to those currently being paid in the given community by families for whom this type of housing is intended.

(b) The established maximum rental shall be the maximum authorized charge against any tenant for the accommodations offered exclusive of telephone, gas, electric, and refrigeration facilities. Charges in addition to such maximum rental may be made against a tenant for telephone, gas, electric, refrigeration, and other facilities and privileges furnished by the mortgagor, subject to the approval of the Administrator.

(c) In the case of a project subject to a mortgage containing release clauses, all matters with respect to the release and all agreements between the mortgagor and its vendees with respect to the amount and terms of sale must first be approved by the Administrator.

(2) *Capital structure.* (a) The sponsor's equity in a project, for dividend purposes, shall mean, (i) the Administrator's estimate of the value of the project upon completion less the face amount of the mortgage plus (ii) required cash working capital. Such

equity shall be in the form of unencumbered property, and such cash and services as the Administrator shall require. Sponsors shall satisfy the Administrator that cash and services contributed as part of such equity shall, when added to the proceeds of the mortgage, be sufficient to cover all estimated costs of the project during the construction period, and taxes and mortgage payments for a reasonable time thereafter.

(b) Such number of shares of capital stock, either with or without par value, in the case of a corporation, or such appropriate evidences of interest, in the case of an association, a cooperative society, or a trust, may be issued as sponsors may deem appropriate. Such stock or interest, together with paid in surplus, if any, shall represent such equity. Additional stock or evidences of interest may be authorized but the charter shall provide that it shall not be issued except with the approval of the Administrator. No stock or interest shall be redeemed, purchased, or paid off by the mortgagor during the period in which the mortgage insurance is in force, except with the approval of the Administrator.

(c) The shares of stock or interest issued to the Administrator shall be in sufficient amount to constitute, under the laws of the particular State, a valid special class of stock or interest and shall be issued in consideration of the payment by the Administrator of not exceeding \$100.

(3) *Rate of return.* No dividends or distribution of income shall be declared or paid by the corporation in any one fiscal year in excess of an aggregate amount fixed by the Administrator at the time the mortgage is accepted for insurance. Such amount shall not exceed an amount equal to six per centum (6%) per annum of the equity as valued by the Administrator, but the Administrator may permit an additional stated amount, payable out of surplus earnings of the corporation after provision for required reserves provided that the aggregate of all dividends payable in any one year shall not exceed eight per centum (8%) of such equity, and provided that no such additional dividends or distribution shall be declared or paid unless the principal of the insured mortgage shall be prepaid in an amount at least equal to one-half the required interest and principal payments for the first amortization year.

(4) *Methods of operation.* (a) No compensation shall be paid by the corporation except for necessary services and except at such rates as is fair and reasonable in the locality for similar services, nor, except with the prior written approval of the Administrator, shall any compensation be paid by the corporation to its officers, directors, or stockholders, or to any person or corporation for supervisory or managerial services, nor shall any compensation be paid by

the corporation to any employee in excess of eighteen hundred dollars (\$1,800) per annum, except with such prior written approval. No officer, director, stockholder, agent, or employee of the corporation shall in any manner become indebted to the corporation.

(b) The corporation shall maintain its project, the grounds, buildings, and equipment appurtenant thereto, in good repair and in such condition as will preserve the health and safety of its tenants.

(c) Before the payment of any dividend by the corporation reserves shall be accumulated and so replenished from time to time as to remain intact so long as the mortgage insurance is in force. The amount and types of such reserves and the conditions under which they shall be accumulated, replenished, and used, shall be specified in the charter.

(d) The corporation, its property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents, and papers shall be subject to inspection and examination by the Administrator or his duly authorized agent at all reasonable times.

(e) The books and accounts of the corporation shall be kept in accordance with the uniform system of accounting prescribed by the Administrator. The corporation shall file with the Administrator the following reports verified by the oath of such officer of the corporation as the Administrator may designate and in such form as prescribed by the Administrator:

- (i) monthly occupancy reports;
- (ii) financial statements to be filed within thirty (30) days after the end of each dividend period established in the charter;
- (iii) annual reports prepared by a certified public accountant, to be filed within sixty (60) days after the end of each fiscal year; and
- (iv) specific answers to questions upon which information is desired from time to time relative to the operation and condition of the property and the status of the insured mortgage.

(5) *Control of funds during construction.* Funds involved in the construction of a project representing security for an insured mortgage loan shall be subject to the following restrictions:

(a) Funds representing the required cash equity shall, as a condition precedent to the insurance of the mortgage, be placed in a special account with a depository satisfactory to the Administrator and subject to withdrawal only upon written approval of the Administrator. Upon completion of construction to the satisfaction of the Administrator, any balance then remaining in such special account shall be paid over to the general account of the corporation for the purpose of establishing its reserves.

(b) No funds representing the proceeds of an insured mortgage shall be

advanced except upon proper requisition approved by the Administrator.

(c) Assurance for the completion of a project (i) may be either the bond of a satisfactory surety company in the standard A. I. A. (or equivalent) form of construction bond in an amount at least equal to ten per centum (10%) of the construction cost, or (ii) may be an escrow deposit in an approved depository of cash or securities of, or fully guaranteed as to principal and interest by, the United States of America, in an amount at least equal to ten per centum (10%) of the construction cost, conditioned on completion of the project to the satisfaction of the Administrator, or (iii) may be in such other form as may be recommended by the mortgagee and approved in writing by the Administrator.\*† [Sec. IV, pars. 1-5]

#### *Eligible Mortgagees*

§ 532.19 *Classifications.* The following are eligible for approval as mortgagees:

(a) A chartered institution or other permanent organization having succession.

(b) The Federal or a State Government, or an agency, instrumentality, or subdivision thereof.

(c) The holder or holders of a credit instrument or instruments given in connection with a mortgage, acting by and through a trustee appointed pursuant to the terms of such mortgage.

In order to be eligible the mortgagee must demonstrate to the satisfaction of the Administrator its ability to make the mortgage loan and service the same.\*† [Sec. V, par. 1]

§ 532.20 *Special provisions for approval.* An eligible institution, organization, agency, or entity may become the mortgagee under an insured mortgage upon its approval by the Administrator for a particular transaction.

In the event that bonds are to be issued as a part of the insured mortgage transaction, all arrangements with respect to the issuance and sale of such bonds shall be subject to approval by the Administrator.\*† [Sec. V, pars. 2-3]

#### *Eligible Properties*

§ 532.21 *Eligibility of property.* In order for property to be eligible as the subject of an insured mortgage, such property must be held in fee simple, or consist of the interest of a lessor or lessee under a lease for not less than ninety-nine (99) years which is renewable, or under a lease having not less than fifty (50) years to run from the date the mortgage was executed. Such mortgage may also cover additional property approved by the Administrator.

The property constituting security for the mortgage must be held by an eligible mortgagor as herein defined and must at the time the mortgage is insured be free and clear of all liens other than that of such mortgage.\*† [Sec. VI, pars. 1-2]

§ 532.22 *Development of property.* At the time the mortgage is insured,

(a) The mortgagor shall be obligated to construct and complete new housing accommodations on the mortgaged property designed principally for residential use, conforming to standards satisfactory to the Administrator, and consisting of not less than sixteen (16) rentable dwelling units on one site and may be detached, semidetached, or row houses, or multifamily structures (projects described under this subdivision are sometimes herein referred to as "new rental projects"); or

(b) There shall be located on the mortgaged property a building or buildings which, upon completion of proposed improvements, shall provide housing accommodations designed principally for residential use, conforming to standards satisfactory to the Administrator, and containing at least sixteen (16) rentable dwelling units preferably but not necessarily contiguous and so located in relation to one another as to effect a substantial improvement of housing standards and conditions in the neighborhood (projects of the type described in this subdivision shall be known as "rehabilitation projects").\*† [Sec. VI, par. 3]

#### Title

§ 532.23 *Eligibility of title.* In order for the mortgaged property to be eligible for insurance, the Administrator must determine that marketable title thereto is vested in the mortgagor as of the date the mortgage is filed for record. The title will be examined by the Administrator, and if found to be eligible such finding shall be recited in the contract of insurance.\*† [Sec. VII, par. 1]

§ 532.24 *Title evidence.* Upon insurance of the mortgage, the mortgagee, without expense to the Administrator, shall furnish to the Administrator a survey satisfactory to him and a policy of title insurance as provided in subdivision (a) of this section, or, if the mortgagee is unable to furnish such policy for reasons satisfactory to the Administrator, the mortgagee, without expense to the Administrator, shall furnish such evidence of title as provided in subdivisions (b), (c), or (d) of this section, as the Administrator may require.

(a) A policy of title insurance with respect to such mortgage, issued by a company satisfactory to the Administrator. Such policy shall comply with the "L. I. C. Standard Mortgage Form" or the "A. T. A. Standard Mortgage Form", or such other form as may be approved by the Administrator; shall be payable to the mortgagee and the Administrator as their respective interests may appear; and shall become an owner's policy, running to the mortgagee as owner upon the acquisition of the property by the mortgagee in extinguishment of the debt through foreclosure or by other means as provided

in § 533.5 (b) (1), and to the Administrator as owner upon the acquisition of the property by him pursuant to the mortgage insurance contract.

(b) An abstract of title satisfactory to the Administrator, prepared by an abstract company or individual engaged in the business of preparing abstracts of title, accompanied by a legal opinion satisfactory to the Administrator, as to the quality of such title, signed by an attorney at law experienced in the examination of titles.

(c) A Torrens or similar title certificate.

(d) Evidence of title conforming to the standards of a supervising branch of the Government of the United States of America, or of any State or Territory thereof.\*† [Sec. VII, par. 2]

§ 532.25 *Effective date.* These Administrative Rules shall be effective as to all mortgages with respect to which a commitment to insure shall be issued on or after the date hereof, except that § 532.14 shall be effective only as to mortgages upon which an application for mortgage insurance is filed after June 3, 1939.\*†

Issued at Washington, D. C., March 1, 1940.

STEWART McDONALD,  
Federal Housing Administrator.

#### SMALL SCALE RENTAL HOUSING RULES (FOR MORTGAGES NOT EXCEEDING \$100,000)

##### Application and commitment

§ 532.26 *Information for preliminary examination.* Information required for preliminary examination of a Rental Housing project under section 207 shall be executed by an approved mortgagee or by an authorized representative of said mortgagee and by the sponsors of such project, and shall be submitted through the local Federal Housing Administration office (executed in triplicate) in the case of a new construction project on F.H.A. Form 2013, and in the case of a rehabilitation project, on such form as may be prescribed by the Administrator. No application will be considered unless the exhibits called for by that form are furnished.

The application must be accompanied by the mortgagee's check for a sum computed at the rate of three dollars (\$3) per thousand dollars (\$1,000) of the original face amount of the mortgage loan for which application is made, to cover the costs of appraisal and inspection by the Administrator. In special cases the Administrator may charge prior to closing an additional fee not exceeding two dollars (\$2) per thousand dollars (\$1,000) of the face amount of the loan to be insured. If an application is refused without an appraisal being made by the Administrator, the fee will be returned to the applicant. If an application is rejected after appraisal, one-half of the fee will be returned to the applicant. If, after insurance, the amount of an insured mortgage is increased either by

amendment or by the substitution of a new insured mortgage, the fee herein provided for shall be based upon the amount of such increase. In the case of a Public Housing project, the fee to be paid under this section shall be fixed by the Administrator, but shall not exceed three dollars (\$3) per thousand dollars (\$1,000) of the original face amount of the mortgage.\*† [Sec. I, pars 1-2]

§ 532.27 *Evidence of acceptance of mortgage.* Upon approval of an application, acceptance of the mortgage for insurance will be evidenced by the issuance of a commitment setting forth, upon a form prescribed by the Administrator, the terms and conditions under which mortgage insurance will be granted but no commitment will be valid unless executed by the Administrator or his duly authorized agent. The commitment may be renewed from time to time in such manner and subject to such conditions as the Administrator may prescribe.\*† [Sec. I, par. 3]

##### Eligible Mortgages

§ 532.28 *Mortgage forms.* The mortgage must be executed upon a form approved by the Administrator for use in the jurisdiction in which the property covered by the mortgage is situated by a mortgagor with the qualifications herein-after set forth in § 532.43, must be a first lien upon property that conforms with the property standards prescribed by the Administrator, and the mortgagee must be obligated, as a part of the mortgage transaction, to disburse the entire principal amount of the mortgage to, or for the account of, the mortgagor.\*† [Sec. II, par. 1]

§ 532.29 *Eligibility for insurance.* In order to be eligible for insurance under these Rules a mortgage shall create a first lien securing a principal obligation not in excess of \$100,000, and such part thereof as may be attributable to dwelling use shall not exceed \$1,350 per room, depending upon the location of the project and local building costs and rental conditions. The principal obligation of such mortgage shall not exceed eighty per centum (80%) of the amount which the Administrator estimates will be the value of the property or project when the proposed improvements are completed: *Provided*, That such mortgage shall not in any event exceed the amount which the Administrator estimates will be the cost of the completed physical improvements on the property or project (inclusive of, in the case of rehabilitation projects, the Administrator's estimate of the depreciated reproduction cost of salvageable existing improvements, and) exclusive of the following: Public utilities except lead ins from abutting streets to the project; public streets except approaches from abutting streets to private streets in the project; abutting sidewalks and curbing outside the project site; real estate taxes, interest on the mortgage, hazard insurance, owner's liability insurance and other insurance customarily payable by

the mortgagor; organization and legal expenses; financing charges; and miscellaneous charges during or incidental to construction, including but not limited to Federal Housing Administration appraisal and inspection fees and mortgage insurance premium, title and recording expenses, and cost of surveys and contour maps.

With respect to rehabilitation projects the following additional limitations shall also apply—

(a) No mortgage shall be eligible unless the Administrator's estimate of the cost of contemplated new physical improvements on the site shall be equivalent to at least fifty per centum (50%) of the mortgage to be insured.

(b) The mortgage shall not exceed eighty per centum (80%) of the aggregate of the Administrator's estimates of (1) the cost of the new physical improvements on the site, (2) the fair market price of the entire property before the contemplated new improvements or, if acquired within one year prior to the date of application for mortgage insurance, of the purchase price, whichever is the lesser, and (3) carrying charges and incidental expenses during construction.\*† [Sec. II, par. 2]

§ 532.30 *Interest rate.* The mortgage shall bear interest at such rate, not exceeding four and one-half per centum (4½%) per annum, as may be agreed upon between the mortgagor and mortgagee, and shall have a maturity satisfactory to the Administrator.\*† [Sec. II, par. 3]

§ 532.31 *Maturity.* The mortgage must contain complete amortization provisions satisfactory to the Administrator requiring equal monthly payments by the mortgagor on account of interest and principal. Amortization of principal must commence not later than the first day of the twelfth month following the execution of the mortgage.\*† [Sec. II, par. 4]

§ 532.32 *Payment requirements.* (a) The mortgage shall provide for payments by the mortgagor to the mortgagee on each monthly payment date of an amount sufficient to accumulate in the hands of the mortgagee, one payment period prior to its due date, the next annual mortgage insurance premium payable by the mortgagee to the Administrator. Such payments shall continue only so long as the contract of insurance shall remain in effect. The mortgage shall provide that upon the payment of the mortgage before maturity, the mortgagor shall pay the adjusted premium charge referred to in § 532.21 of the Regulations attached hereto.

(b) The mortgage shall provide for such equal monthly payments by the mortgagor to the mortgagee as will amortize the ground rents, if any, and the estimated amount of all taxes, special assessments, if any, and fire and other hazard insurance premiums, within

a period ending one month prior to the dates on which the same become delinquent. The mortgage shall further provide that such payments shall be held by the mortgagee in a manner satisfactory to the Administrator, for the purpose of paying such ground rents, taxes, assessments, and insurance premiums, before the same become delinquent, for the benefit and account of the mortgagor. The mortgage must also make provision for adjustments in case the estimated amount of such taxes, assessments, and insurance premiums shall prove to be more, or less, than the actual amount thereof so paid by the mortgagor.

(c) All monthly payments to be made by the mortgagor to the mortgagee as hereinabove provided, in Sections 532.31 and 532.32 inclusive, shall be added together and the aggregate amount thereof shall be paid by the mortgagor each month in a single payment. The mortgagee shall apply the same to the following items in the order set forth:

- (1) premium charges under the contract of insurance;
- (2) ground rents, taxes, special assessments, and fire and other hazard insurance premiums;
- (3) interest on the mortgage; and
- (4) amortization of the principal of the mortgage. Any deficiency in the amount of any such aggregate monthly payment shall, unless made good by the mortgagor prior to or on the due date of the next such payment, constitute an event of default under the mortgage.\*† [Sec. II, pars. 5-7]

§ 532.33 *Deposits by mortgagor to mortgagee upon execution of mortgage.* The mortgagor shall deposit with the mortgagee upon execution of the mortgage, such sums as may be required by the Administrator to cover initial estimated requirements for ground rents, taxes, special assessments, fire and other hazard insurance premiums, interest on the mortgage, and first and second years' mortgage insurance premiums. Such sums shall be held by the mortgagee to pay the above charges as they become due, unless other application thereof is approved by the Administrator.\*† [Sec. II, par. 8]

§ 532.34 *Initial service charge.* The mortgagee may charge the mortgagor the amount of the appraisal fee provided in § 532.26 and an initial service charge to reimburse itself for the cost of closing the transaction. Such initial service charge may be in an amount not in excess of one and one-half per centum (1½%) of the original principal amount of the mortgage.\*† [Sec. II, par. 9]

§ 532.35 *Recording fees, etc.* In addition to the charges hereinbefore mentioned, the mortgagee shall collect from the mortgagor only recording fees, mortgage and stamp taxes, if any, and such costs of surveys and title search as are approved by the Administrator.\*† [Sec. II, par. 10]

§ 532.36 *Release provisions.* The mortgage shall cover the entire property included in the housing project. Where the project consists principally of single-family houses the mortgage may include appropriate provisions for the release from the lien thereof of any of such houses and the land upon which it is located in consideration of the payment to the mortgagee, in reduction of the principal of the mortgage, of an amount set forth in a schedule attached to and forming part of said mortgage. Such mortgages shall provide that the released property be subject to deed restrictions, approved by the Administrator at the time of the insurance of the mortgage and providing to the properties remaining under the mortgage adequate protection against adverse influences. Where the mortgage does not contain such release provisions no property shall, except with the consent of the mortgagee and the Administrator, be released from the lien thereof so long as the mortgage insurance is in force.\*† [Sec. II, par. 11]

§ 532.37 *Covenant against liens.* The mortgage, except in the case of Public Housing projects, shall contain a covenant against the creation by the mortgagor of liens against the property inferior to the lien of the mortgage.\*† [Sec. II, par. 12]

§ 532.38 *Provision for protection of property in event of default.* The mortgage must contain a provision or provisions, satisfactory to the Administrator, giving to the mortgagee, in event of default or foreclosure of the mortgage, such rights and remedies, for the protection and preservation of the property covered by the mortgage and the income therefrom, as are available under the law or custom of the jurisdiction.\*† [Sec. II, par. 13]

§ 532.39 *Covenants for hazard insurance.* The mortgage shall contain a covenant binding the mortgagor to keep the mortgaged property insured against fire and such other hazard as the Administrator may stipulate, in companies and in amounts satisfactory to the Administrator. The policies evidencing such insurance shall have attached thereto a standard mortgagee clause making loss, if any, payable to the mortgagee and the Administrator, as interest may appear.\*† [Sec. II, par. 14]

§ 532.40 *Additional terms and conditions.* The mortgage may contain such other terms, conditions, and provisions with respect to advances during construction, assurance of completion, release of parts of the mortgaged property from the lien of the mortgage, insurance, repairs, alterations, payment of taxes, default and management reserves, foreclosure proceedings, anticipation of maturity, and other matters as the Administrator may in his discretion prescribe or approve.\*† [Sec. II, par. 15]

§ 532.41 *Soundness of property.* The mortgage must be executed with respect to a project which, in the opinion of the



Administrator, is economically sound.\*† [Sec. II, par. 16]

§ 532.42 *Prevailing wage requirements.* No advance under any mortgage shall be eligible for insurance unless there is filed with the application for such advance a certificate or certificates in the form required by the Administrator certifying that the laborers and mechanics employed in the construction of the dwelling or dwellings or the housing project involved have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor prior to the beginning of construction and after the date of the filing of application for insurance. This section shall be effective only as to mortgages upon which an application for mortgage insurance is filed after June 3, 1939.\*† [Sec. II, par. 17]

#### *Eligible Mortgages*

§ 532.43 *Classification of mortgages.* In order to be eligible for insurance the mortgagor must be—

(a) a private corporation, association, cooperative society which is a legal agent of the owner-occupants or trust (referred to in these Rules and Regulations as "mortgagor", "corporation", or "mortgagor corporation"), formed or created with the approval of the Administrator, for the purpose of (1) rehabilitating slum or blighted areas, or (2) providing housing for rent or sale, and possessing powers necessary therefor and incidental thereto, which corporation, association, cooperative society, or trust, until the termination of all obligations of the Administrator under such insurance, is regulated or restricted by the Administrator as to rents or sales, charges, capital structure, rate of return, and methods of operation. Such regulation or restriction shall remain in effect until such time as the mortgage insurance contract terminates without obligation upon the Administrator to issue debentures as a result of such termination. So long as such contract of insurance is in effect, the corporation, association, cooperative society, or trust shall engage in no business other than the construction and operation of a Rental Housing project or projects; or

(b) a Federal or State instrumentality, a municipal corporate instrumentality of one or more States, or a limited dividend corporation formed under and restricted by Federal or State housing laws as to rents, charges, capital structure, rate of return, or methods of operation (projects of such mortgagors are referred to as "Public Housing projects")\*† [Sec. III, par. 1]

§ 532.44 *Property free of liens and obligations.* A mortgagor, except a mortgagor of a Public Housing project, must establish that as of the date the

mortgage is endorsed for insurance, the property covered by the mortgage is free and clear of all liens other than such mortgage, and that after final disbursement of the loan there will not be outstanding any other unpaid obligation contracted in connection with the mortgage transaction or the purchase of the mortgaged property, except obligations for payment of which funds are held by the mortgagor.\*† [Sec. III, par. 2]

§ 532.45 *Definition of term "slum or blighted area".* The term "slum or blighted area" means any area where dwellings predominate which, by reason of dilapidation, overcrowding, faulty arrangement or design, lack of ventilation, light or sanitation facilities, or any combination of these factors, are detrimental to safety, health, or morals.\*† [Sec. III, par. 3]

#### *Supervision of Mortgages*

§ 532.46 *In general.* In the case of an eligible mortgagor described in § 532.43 (b), the Administrator is not required under the Act to regulate or restrict the mortgagor. Such mortgagor, however, must have initial funds which may be considered in lieu of the equity required of other mortgagors. Such funds (which may be in the form of government loans, grants or subsidies, or in other form) if sufficient in amount will be considered satisfactory provided they do not create a lien against the property prior to that of the insured mortgage. Liens inferior to the lien of the insured mortgage may be allowed against properties of such mortgagors.

Supervision of other mortgagors is required by the provision of section 207 of the Act that such mortgagors shall be regulated or restricted by the Administrator.

Regulations or restrictions with respect to dividends and provisions for reserves shall be required to be embodied in the charter for such mortgagor, by provisions satisfactory to the Administrator. The other regulations or restrictions outlined below may be embodied in a regulatory contract between the mortgagor and the Administrator.\*† [Sec. IV]

§ 532.47 *Required supervision of private mortgagors.* The following are the items which will be regulated or restricted to the extent indicated, except in the case of mortgagors of Public Housing projects:

(a) *Rents and charges.* Except as hereinafter provided,

(1) No charge shall be made by the mortgagor corporation for the accommodations offered by the project in excess of a rental schedule to be filed with and approved by the Administrator prior to the opening of the project for rental, which schedule shall be based upon a maximum average rental fixed prior to the insurance of the mortgage. Such schedule shall not thereafter be changed except upon application of the mortgagor

corporation and with the written approval of the Administrator. In establishing such maximum and in passing upon applications for changes, consideration will be given the following and similar factors:

(i) Rental income necessary to maintain the economic soundness of the project.

(ii) Relation of the proposed rentals to those currently being paid in the given community by families for whom this type of housing is intended.

(2) The established maximum rental shall be the maximum authorized charge against any tenant for the accommodations offered exclusive of telephone, gas, electric, and refrigeration facilities. Charges in addition to such maximum rental may be made against a tenant for telephone, gas, electric, refrigeration, and other facilities and privileges furnished by the mortgagor, subject to the approval of the Administrator.

(3) In the case of a project subject to a mortgage containing release clauses, all matters with respect to the release and all agreements between the mortgagor and its vendees with respect to the amount and terms of sale must first be approved by the Administrator.

(b) *Capital structure.*

(1) The sponsor's equity in a project, for dividend purposes, shall mean, (i) the Administrator's estimate of the value of the project upon completion less the face amount of the mortgage plus (ii) required deposit in lieu of cash working capital. Such equity shall be in the form of unencumbered property, and such cash and services as the Administrator shall require. Sponsors shall satisfy the Administrator that cash and services contributed as part of such equity shall, when added to the proceeds of the mortgage, be sufficient to cover all estimated costs of the project during the construction period, and taxes and mortgage payments for a reasonable time thereafter.

(2) Such number of shares of capital stock, either with or without par value, in the case of a corporation, or such appropriate evidences of interest, in the case of an association, a cooperative society, or a trust, may be issued as sponsors may deem appropriate. Such stock or interest, together with paid in surplus, if any, shall represent such equity. Additional stock or evidences of interest may be authorized but the regulatory contract shall provide that it shall not be issued except with the approval of the Administrator. No stock or interest shall be redeemed, purchased, or paid off by the mortgagor during the period in which the mortgage insurance is in force, except with the approval of the Administrator.

(c) *Rate of return.* No dividends or distribution of income shall be declared

or paid by the corporation in any one fiscal year in excess of an aggregate amount fixed by the Administrator at the time the mortgage is accepted for insurance. Such amount shall not exceed an amount equal to six percentum (6%) per annum of the equity as valued by the Administrator, but the Administrator may permit an additional stated amount, payable out of the surplus earnings of the corporation after provision for required reserves, provided that the aggregate of all dividends payable in any one year shall not exceed eight percentum (8%) of such equity and provided that no such additional dividends or distribution shall be declared or paid unless the principal of the insured mortgage shall be prepaid in an amount at least equal to one-half of the required interest and principal payments for the first amortization year. Dividends shall be noncumulative.

(d) *Methods of operation.*

(1) No compensation shall be paid by the corporation except for necessary services and except at such rate as is fair and reasonable in the locality for similar services, nor, except with the prior written approval of the Administrator, shall any compensation be paid by the corporation to its officers, directors, or stockholders, or to any person or corporation for supervisory or managerial services, nor shall any compensation be paid by the corporation to any employee in excess of eighteen hundred dollars (\$1,800) per annum except with such prior written approval. No officer, director, stockholder, agent, or employee of the corporation shall in any manner become indebted to the corporation.

(2) The corporation shall maintain its project, the grounds, buildings, and equipment appurtenant thereto, in good repair and in such condition as will preserve the health and safety of its tenants.

(3) Before the payment of any dividend by the corporation reserves shall be accumulated and so replenished from time to time as to remain intact so long as the mortgage insurance is in force. The amount and types of such reserves and the conditions under which they shall be accumulated, replenished, and used, shall be specified in the contract.

(4) The corporation, its property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents, and papers shall be subject to inspection and examination by the Administrator or his duly authorized agent at all reasonable times.

(5) The books and accounts of the corporation shall be kept in accordance with the uniform system of accounting prescribed by the Administrator. Semi-annual reports verified by the oath of such officer of the mortgagor as the Administrator may direct shall be filed with the Administrator in such form as he may prescribe.\*† [Sec. IV, pars. 1-4]

*Insurance of Advances*

§ 532.48 *Agreement as to manner and conditions.* Except with written approval of the Administrator, the mortgage transaction shall be closed, the mortgage recorded, and the mortgage note endorsed for insurance prior to commencement of construction. In the case of a new rental construction project, the term "commencement of construction" means the pouring of footings or any work beyond the stage of excavation. In the case of a rehabilitation project, the term "commencement of construction" means commencement of any construction operation thereon, including demolition.

The mortgagee shall, prior to the endorsement for insurance, represent to the Administrator upon a prescribed form, the manner and conditions under which advances during construction are to be made by the mortgagee. The Administrator will approve advances for insurance or will approve the entire amount of the mortgage upon completion as the parties may request prior to the endorsement for insurance.\*† [Sec. V, pars. 1-2]

§ 532.49 *Notice of advance.* In the event insurance of advances during construction is desired, the mortgagee shall be required to notify the Administrator in writing not less than five (5) days prior to the date on which an advance is to be made, of the amount of the advance proposed to be made, and the Administrator shall deliver to the mortgagee within four (4) days from the date of such notice a certificate executed by the Administrator on a form prescribed by him, setting forth the amount approved for insurance or advising the mortgagee of the Administrator's non-approval and setting forth the reasons therefor.\*† [Sec. V, par. 3]

§ 532.50 *Assurance of completion.* Such assurance of completion for the construction of the project shall be furnished as the Administrator may require.\*† [Sec. V, par. 4]

*Eligible Mortgagees*

§ 532.51 *Classifications.* The following are eligible for approval as mortgagees:

(a) A chartered institution or other permanent organization having succession.

(b) The Federal or a State Government, or an agency, instrumentality, or subdivision thereof.

(c) The holder or holders of a credit instrument or instruments given in connection with a mortgage, acting by and through a trustee appointed pursuant to the terms of such mortgage.

In order to be eligible the mortgagee must demonstrate to the satisfaction of the Administrator its ability to make the mortgage loan and service the same.\*† [Sec. VI, par. 1]

§ 532.52 *Special provisions for approval.* An eligible institution, organization, agency, or entity may become the mortgagee under an insured mortgage upon its approval by the Administrator for a particular transaction.

In the event that bonds are to be issued as a part of the insured mortgage transaction, all arrangements with respect to the issuance and sale of such bonds shall be subject to approval by the Administrator.\*† [Sec. VI, pars. 2-3]

*Eligible Properties*

§ 532.53 *Eligibility of property.* In order for property to be eligible as the subject of an insured mortgage, such property must be held in fee simple, or consist of the interest of a lessor or lessee under a lease for not less than ninety-nine (99) years which is renewable, or under a lease having not less than fifty (50) years to run from the date the mortgage was executed. Such mortgage may also cover additional property approved by the Administrator.

The property constituting security for the mortgage must be held by an eligible mortgagor as herein defined and must at the time the mortgage is insured be free and clear of all liens other than that of such mortgage.\*† [Sec. VII, pars. 1-2]

§ 532.54 *Development of property.* At the time the mortgage is insured:

(a) the mortgagor shall be obligated to construct and complete new housing accommodations on the mortgaged property designed principally for residential use, conforming to standards satisfactory to the Administrator, and consisting of not less than sixteen (16) rentable dwelling units on one site and may be detached, semidetached, or row houses, or multifamily structures (projects described under this subdivision are sometimes herein referred to as "new rental projects"); or

(b) there shall be located on the mortgaged property a building or buildings which, upon completion of proposed improvements, shall provide housing accommodations designed principally for residential use, conforming to standards satisfactory to the Administrator, and containing at least sixteen (16) rentable dwellings units preferably but not necessarily contiguous and so located in relation to one another as to effect a substantial improvement of housing standards and conditions in the neighborhood (projects of the type described in this subdivision shall be known as "rehabilitation projects").\*† [Sec. VII, par. 3]

*Title*

§ 532.55 *Eligibility of title.* In order to be eligible for insurance, the Administrator must determine that marketable title to the mortgaged property is vested in the mortgagor as of the date the mortgage is filed for record. The Administrator will examine the title to property covered by a mortgage offered for insur-

ance and in the event a determination of eligibility with respect to title is made as herein provided, such finding shall constitute a part of the contract of insurance evidenced by the insurance endorsement.\*† [Sec. VIII, par. 1]

§ 532.56 *Title evidence.* Upon endorsement of the mortgage for insurance, the mortgagee, without expense to the Administrator, shall furnish to the Administrator a survey satisfactory to him and a policy of title insurance as provided in subdivision (a) of this section, provided, however, that in the event the mortgagee is unable to furnish such policy for reasons satisfactory to the Administrator, the mortgagee, without expense to the Administrator, shall furnish evidence of title as provided in subdivisions (b), (c), or (d) of this section as the Administrator may require.

(a) A policy of title insurance with respect to such mortgage, issued by a company satisfactory to the Administrator. Such policy shall comply with the "L. I. C. Standard Mortgagee Form" or the "A. T. A. Standard Mortgagee Form," or such other form as may be approved by the Administrator and which offers substantially the same coverage under substantially the same conditions and stipulations. Such policies may contain such "permitted" and other exceptions, restrictions, and limitations as are approved by the Administrator. The policy shall become effective as of the date the mortgage is filed for record and shall run to the mortgagee as owner upon acquisition of the property by the mortgagee in extinguishment of the debt through foreclosure or by other means as provided in § 533.25 (b) (1) of the Regulations and to the Administrator upon his acquisition of the property upon the issuance of debentures as provided in § 533.27 of the Regulations and shall be payable to the mortgagee and the Administrator as their respective interest may appear.

(b) An abstract of title satisfactory to the Administrator, prepared by an abstract company or individual engaged in the business of preparing abstracts of title, accompanied by a legal opinion satisfactory to the Administrator, as to the quality of such title, signed by an attorney at law experienced in the examination of titles.

(c) A Torrens or similar title certificate.

(d) Evidence of title conforming to the standards of a supervising branch of the Government of the United States of America, or of any State or Territory thereof.\*† [Sec. VIII, par. 2]

*Effective Date*

§ 532.57 *Effective date.* These Administrative Rules shall be effective as to all mortgages with respect to which a commitment to insure shall be issued on or after the date hereof, except that § 532.42 shall be effective only as to mortgages upon which an application for

mortgage insurance is filed after June 3, 1939.\*†

Issued at Washington, D. C., March 1, 1940.

[SEAL] STEWART McDONALD,  
Federal Housing Administrator.

PART 533—ADMINISTRATIVE REGULATIONS UNDER SECTION 207, NATIONAL HOUSING ACT

LARGE SCALE RENTAL HOUSING REGULATIONS (FOR MORTGAGES IN EXCESS OF \$100,000)

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533.33 In general.  
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RIGHTS IN HOUSING FUND

533.35 No vested right.

AMENDMENTS

533.36 Amendments to Regulations.

EFFECTIVE DATE

533.37 Effective date.

LARGE SCALE RENTAL HOUSING REGULATIONS (FOR MORTGAGES IN EXCESS OF \$100,000)

§ 533.0 *Citations.* These Regulations may be cited and referred to as "Regulations of the Federal Housing Administrator under Section 207 of the National Housing Act for Large Scale Multifamily Projects, issued March 1, 1940."\*† [Art. I]

§ 533.1 *Definitions.* As used in these Regulations—

(1) The term "Administrator" means the Federal Housing Administrator.

(2) The term "Act" means the National Housing Act, as amended.

(3) The term "mortgage" means such a first lien upon real estate and other property as is commonly given to secure advances (including but not being limited to advances during construction) on, or the unpaid purchase price of, real estate under the laws of the State, district or territory in which the real estate is located, together with the credit instrument or instruments, if any, secured thereby.

(4) The term "insured mortgage" means a mortgage with respect to which the Administrator has issued an executed contract of insurance.

(5) The term "mortgagor" means the original borrower under a mortgage and its successors and such of its assigns as are approved by the Administrator.

(6) The term "mortgagee" means the original lender under a mortgage, its successors and such of its assigns as are approved by the Administrator, and includes the holders of the credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee therein named.

(7) The term "contract of insurance" means the written instrument duly executed by the Administrator and the mortgagee, setting forth the terms, conditions, and provisions of insurance, which terms, conditions, and provisions shall be subject to these Regulations.

(8) The term "claim under the contract of insurance" means the assignment, transfer and delivery to the Administrator of the mortgage or the con-

\* §§ 533.0-533.17, inclusive (covering Large Scale Rental Housing Regulations), and §§ 533.18-533.37, inclusive (covering Small Scale Rental Housing Regulations) are issued under authority contained in Section 211 of the National Housing Act, as amended. These Regulations supersede all previous Regulations heretofore issued under Section 207 of the National Housing Act.

† The source of §§ 533.0-533.17, inclusive, is Large Scale Rental Housing Insurance for Mortgages in Excess of \$100,000, Administrative Rules and Regulations under Section 207 of Title II of the National Housing Act, issued March 1, 1940 (FHA Form 2012). The source of §§ 533.18 to 533.37, both inclusive, is Small Scale Rental Housing Insurance for Mortgages Not Exceeding \$100,000, Administrative Rules and Regulations under Section 207 of Title II of the National Housing Act, issued March 1, 1940 (FHA Form 2012 (a)).

veyance to him of the property, as provided in §§ 533.5-533.12.\*† [Art. II]

#### Premiums

§ 533.2 *First and second interim premiums.* The mortgagee, upon the delivery of the contract of insurance, shall pay to the Administrator a mortgage insurance premium equal to one-half of one per centum ( $\frac{1}{2}$  of 1%) of the original face amount of the mortgage and, upon the anniversary of such date, shall pay a premium in a like sum. Said two premiums shall be known respectively as the first and second interim premiums. On the date on which the first periodic payment of principal is due the mortgagee shall pay to the Administrator, subject to the adjustment hereinafter provided, and annually thereafter on the anniversary of such date until the mortgage is paid in full or claim under the contract of insurance is made or until the contract of insurance shall terminate, an annual mortgage insurance premium equal to one-half of one per centum ( $\frac{1}{2}$  of 1%) of the average outstanding principal obligation of the mortgage for the year following the date on which such premium becomes payable, and calculated in accordance with the amortization provisions without taking into account delinquent payments or prepayments. The premium payable on the date on which the first periodic payment of principal becomes due shall be adjusted so as to accord with such date and so that the aggregate of the premiums paid up to and including the premium paid on such adjusted payment date shall equal the sum of (a) one per centum (1%) of the average outstanding principal obligation of the mortgage for the year following the date on which the first interim premium became payable and (b) one-half of one per centum ( $\frac{1}{2}$  of 1%) per annum of the average outstanding principal obligation of the mortgage for the period from the date when the second interim premium became payable down to and including one year following the date on which such first periodic payment of principal becomes due, and calculated in accordance with the amortization provisions, without taking into account delinquent payments or prepayments. The provisions of this section shall also apply to mortgages insured prior to February 3, 1938, but only in respect to premiums payable after such date, and no adjustment shall be made with respect to any premium payable on or before such date. All premiums shall be payable in cash or in debentures issued by the Administrator under Title II of the Act at par plus accrued interest.\*† [Art. III, par. 1]

§ 533.3 *Prepayment premium charges.* In the event that the principal obligation of any mortgage accepted for insurance is paid in full prior to maturity, the mortgagee shall within thirty (30) days thereafter notify the Administrator of the date of prepayment and shall collect from the mortgagor and pay to the

Administrator in the case of a mortgage prepaid within five years from the date thereof, an adjusted premium charge of two per centum (2%) of the original face amount of the prepaid mortgage, and in case the mortgage is prepaid after five years from the date thereof, an adjusted premium charge of one per centum (1%) of the original face amount of the prepaid mortgage, except that if at the time of any such prepayment there is placed on the mortgaged property a new insured mortgage in an amount less than the original face amount of the prepaid mortgage, an adjusted premium shall be paid based upon the difference between such amounts at the rate applicable as above stated, depending upon the date of prepayment.

In no event shall the adjusted premium exceed the aggregate amount of premium charges which would have been payable if the mortgage had continued to be insured until maturity.

No adjusted premium shall be collected by the mortgagee in the following cases:

(a) where at the time of such prepayment there is placed on the mortgaged property a new insured mortgage for an amount equal to or greater than the original face amount of the prepaid mortgage; or

(b) where the final maturity specified in the mortgage is accelerated solely by reason of partial prepayments made by the mortgagor which do not exceed in any one calendar year fifteen per centum (15%) of the original face amount of the mortgage; or

(c) where the final maturity specified in the mortgage is accelerated solely by reason of payments to principal to compensate for (i) damage to the mortgaged property, or (ii) a release of a part of such property if approved by the Administrator; or

(d) where payment in full is made of a delinquent mortgage on which foreclosure proceedings have been commenced, or for the purpose of avoiding foreclosure, if the transaction is approved by the Administrator.

Upon such prepayment the contract of insurance shall terminate.

The provisions of this section shall not be construed to prohibit the mortgagee from including in the mortgage and collecting from the mortgagor such charge for prepayment as may be agreed upon between the mortgagee and mortgagor.\*† [Art. III, par. 2]

§ 533.4 *Contract of insurance.* Upon compliance satisfactory to the Administrator with the terms of the commitment to insure the Administrator and the mortgagee shall execute the contract of insurance and the mortgage shall be an insured mortgage from the effective date of such contract. The Administrator and the mortgagee shall thereafter be bound by the contract of insurance, subject to the provisions of these Regulations which

shall form part of each such contract.\*† [Art. IV]

#### Rights and Duties of a Mortgagee under the Contract of Insurance

§ 533.5 *Benefits of insurance.* The mortgagee shall be entitled to receive the benefits of the insurance, at its option, either as provided in subdivision (a) or subdivision (b) hereunder.

(a) If the mortgagor fails to make any payment due under or provided to be paid by the terms of the mortgage and such failure continues for a period of thirty (30) days, the mortgage shall be considered in default, and the mortgagee shall, within thirty (30) days thereafter, give notice in writing to the Administrator of such default. At any time within thirty (30) days after the date of such notice, the mortgagee shall, in such manner as the Administrator may require, assign, transfer, and deliver to the Administrator (without recourse or warranty, except that the mortgagee must warrant that no act or omission of the mortgagee has impaired the validity and priority of the mortgage, that the amount stated in the instrument of assignment is actually due and owing under the mortgage, that there are no offsets or counterclaims thereto, and that the mortgagee has a good right to assign the mortgage and the other items enumerated below):

(1) all rights and interests arising under the mortgage so in default;

(2) all claims of the mortgagee against the mortgagor or others, arising out of the mortgage transaction;

(3) all policies of title or other insurance or surety bonds or other guaranties, and any and all claims thereunder;

(4) any balance of the mortgage loan not advanced to the mortgagor;

(5) any cash or property held by the mortgagee or to which it is entitled, as deposits made for the account of the mortgagor and which have not been applied in reduction of the principal of the mortgage indebtedness; and

(6) all records, documents, books, papers, and accounts relating to the mortgage transaction.

Nothing contained in this subdivision shall be so construed as to prevent the mortgagee from taking action at a later date than herein specified, provided the Administrator agrees in writing.

(b) *By conveyance of property.* If the mortgagor fails to make any payment to the mortgagee required by the mortgage, or to perform any other covenant or obligation under the mortgage, and such failure continues for the period of grace, if any, set forth in the mortgage, the mortgage shall be considered in default, and the mortgagee, within the period set forth in the contract of insurance after the occurrence of a default arising on account of such failure to make any such payment or within the period set forth in the contract of in-

insurance after the mortgagee shall have knowledge of the occurrence of a default arising on account of such failure to perform any other covenant or obligation under the mortgage, shall give notice in writing to the Administrator of such default. At any time within the period set forth in the contract of insurance from the date of such notice, the mortgagee, at its election, shall either—

(1) with, and subject to, the consent of the Administrator, acquire by means other than foreclosure of the mortgage, possession of, and title to, the mortgaged property or

(2) institute proceedings for the foreclosure of the mortgage: *Provided*, That if the laws of the State in which the mortgaged property is situated do not permit the institution of such proceedings within such period of time, the mortgagee shall institute such proceedings within sixty (60) days after the expiration of the time during which the institution of such proceedings is prohibited by such laws. Nothing contained in this subdivision shall be so construed as to prevent the mortgagee from taking action at a later date than herein specified, provided the Administrator so agrees in writing. The mortgagee shall promptly give notice in writing to the Administrator of the institution of foreclosure proceedings under this subdivision and shall exercise reasonable diligence in prosecuting such proceedings to completion.

If after default and prior to the completion of foreclosure proceedings the mortgagor shall pay to the mortgagee all periodic payments in default and such expenses as the mortgagee shall have incurred in connection with the foreclosure proceedings, notice thereof shall be given to the Administrator by the mortgagee, and the insurance shall continue as if such default had not occurred.\*† [Art. V, par. 1]

§ 533.6 *Computation of benefits received by assignment.* If the mortgagee elects to proceed under, and does proceed under and in accordance with, the provisions of § 533.5 (a), and furnishes evidence satisfactory to the Administrator that there are no past due and unpaid ground rents, general taxes, or special assessments, and furnishes the warranties described in said § 533.5 (a), the Administrator shall deliver to the mortgagee—

(a) Debentures of the Housing Insurance Fund as set forth in Section 207 of the Act, having a total face value equal to the original face amount of the mortgage plus such amounts as have been paid by the mortgagee for (1) taxes, special assessments, and water rates, which are liens prior to the mortgage; (2) insurance on the property; and (3) expenses for the completion or preservation of the property, subsequent to the default, and which have been approved by the Administrator, as reasonable and

necessary; less the sum of (i) that part of the amount of the principal obligation that has been repaid, (ii) an amount equivalent to two per centum (2%) of the principal amount of the mortgage advanced to the mortgagor and unpaid, and (iii) any net income received by the mortgagee from the property: *Provided*, That such debentures shall be issued in multiples of \$50 and any difference, not in excess of \$50, between the amount of debentures to which the mortgagee is otherwise entitled hereunder and the aggregate face value of the debentures issued shall be paid in cash by the Administrator to the mortgagee. Such debentures shall be dated as of the date of such assignment, transfer, and delivery, and shall bear interest from such date at a rate to be determined by the Administrator, at the time the mortgage is insured, but not to exceed three per centum (3%) per annum, payable semi-annually on the first day of January and the first day of July of each year, and shall mature three (3) years after the first day of July following the maturity date of the mortgage in exchange for which the debentures were issued. Such debentures shall be registered as to principal and interest and all or any such debentures may be redeemed at the option of the Administrator, with the approval of the Secretary of the Treasury, at par and accrued interest on any interest payment date on three (3) months' notice of redemption given in such manner as the Administrator shall prescribe.

(b) A certificate of claim in accordance with Section 207 (h) of the Act which shall become payable, if at all, upon the sale and final liquidation of the interest of the Administrator in such property, in accordance with Section 207 (h) of the Act. This certificate shall be for an amount which the Administrator determines to be sufficient, when added to the face value of the debentures issued and the cash adjustment paid to the mortgagee, to equal the amount which the mortgagee would have received if, on the date of the assignment, transfer and delivery to the Administrator provided for in § 533.5 (a), the mortgagor had extinguished the mortgage indebtedness by payment in full of all obligations under the mortgage. Such certificate of claim shall provide that there shall accrue to the holder of such certificate, with respect to the face amount of such certificate, an increment at the rate of three per centum (3%) per annum, which shall not be compounded. If any excess is realized from the mortgage, and all claims in connection therewith so assigned, transferred and delivered, and from the property covered by such mortgage and all claims in connection with such property, after deducting all expenses incurred by the Administrator in handling, dealing with, acquiring title to, and disposing of such mortgage and property and in collecting such claims, such excess shall be applied in payment

of the certificate of claim and any balance thereafter shall be paid to the mortgagor, as provided in Section 207 (h) (1) of the Act.\*† [Art. V, par. 2]

§ 533.7 *Computation of benefits received by conveyance.* If the mortgagee elects to proceed under, and does proceed under and in accordance with, the provisions of Section 533.5 (b), and at any time within thirty (30) days (or such further time as may be allowed by the Administrator in writing) after acquiring title to and possession of the mortgaged property in accordance with such subdivision, tenders to the Administrator possession of, and a deed containing a covenant which warrants against acts of the mortgagee and all claiming by, through, or under it conveying title to, such property, satisfactory to the Administrator, as provided in § 533.8, and assigns (without recourse or warranty) any and all claims which it has acquired in connection with the mortgage transaction and as a result of the foreclosure proceedings or other means by which it acquired such property, including any claim on account of title insurance and fire, or other hazard insurance, except such claims as may have been released with the prior approval of the Administrator, the Administrator shall promptly accept conveyance of such property and such assignment, notwithstanding that the buildings or improvements thereon may be incomplete, or may have been destroyed, damaged, or injured in whole or part, and shall deliver to the mortgagee—

(a) Debentures of the Housing Insurance Fund as set forth in Section 204 of the Act, in a principal amount equal to the principal of the mortgage which has been advanced with the written approval of the Administrator and which is unpaid on the date of the institution of foreclosure proceedings or the acquisition of the property after default other than by foreclosure, plus the amount of all payments which have been made by the mortgagee for taxes, ground rents, and water rates, which are liens prior to the mortgage, special assessments which are noted on the application for insurance or which become liens after the insurance of the mortgage, insurance on the mortgaged property, and any mortgage insurance premiums paid after either of such dates, less any amount received on account of the mortgage, and any amount received as rent or other income from the property, after deducting therefrom reasonable expenses incurred in handling the property, after either of such dates: *Provided*, That such debentures shall be issued in multiples of \$50 and any difference, not to exceed \$50, between the amount of debentures to which the mortgagee is otherwise entitled hereunder and the aggregate face value of the debentures issued shall be paid in cash. Such debentures shall be dated as of the date foreclosure proceedings were instituted, or the property was otherwise

acquired by the mortgagee after default, and shall bear interest from such date at a rate to be determined by the Administrator at the time the mortgage is offered for insurance, but not to exceed three per centum (3%) per annum, payable semiannually on the first day of January and the first day of July of each year, and shall mature three (3) years after the first day of July following the maturity date of the mortgage on the property in exchange for which the debentures were issued. Such debentures shall be registered as to principal and interest and all or any such debentures may be redeemed at the option of the Administrator, with the approval of the Secretary of the Treasury, at par and accrued interest on any interest payment date on three (3) months' notice of redemption given in such manner as the Administrator shall prescribe.

(b) A certificate of claim in accordance with Section 204 (e) of the Act, which shall become payable, if at all, upon the sale and final liquidation of the interest of the Administrator in such property, in accordance with Section 204 (f) of the Act. This certificate shall be for an amount which the Administrator shall determine to be sufficient to pay all amounts due under the mortgage and not covered by the amount of debentures and shall include a reasonable amount for necessary expenses incurred by the mortgagee in connection with the foreclosure proceedings or the acquisition of the mortgaged property otherwise and the conveyance thereof to the Administrator. Each such certificate of claim shall provide that there shall accrue to the holder thereof with respect to the face amount of such certificate, an increment at the rate of three per centum (3%) per annum, which shall not be compounded. If any excess is realized from the property conveyed to the Administrator and the claims assigned therewith after deducting all expenses incurred by the Administrator in handling, dealing with, and disposing of such property and in collecting such claims, such excess shall be applied in payment of the certificate of claim and any balance thereof shall be paid to the mortgagor, as provided in Section 204 (f) of the Act.\*† [Art. V, par. 3]

§ 533.8 *Title in case of conveyance.* Title satisfactory to the Administrator within the meaning of § 533.7 will be such title as was vested in the mortgagor as of the date the mortgage was filed for record, free and clear of all liens and encumbrances which may have attached, or defects which may have arisen subsequent to the recording of such mortgage, except such liens or other matters as may be approved by the Administrator. The Administrator will not object to the title because of mechanics' liens excepted from the title evidence as unfiled at the date of recording the mortgage or of any advance thereunder, provided that advances under the mortgage are disbursed with the approval of the Administrator and

that the certification of a title insurer or title attorney satisfactory to the Administrator be obtained to the effect that, as of the date of each advance, no lien appeared of record and the title policy or title opinion had been extended accordingly.\*† [Art. V, par. 4]

§ 533.9 *Evidence of title.* The mortgagee, at the time a deed is tendered in accordance with § 533.7, shall furnish to the Administrator without expense to him satisfactory evidence of such title. Such title evidence shall be executed as of a date to include the recordation of the deed to the Administrator and, at the option of the mortgagee, may be in the form of an owner's policy of title insurance, or a satisfactory abstract and attorney's opinion covering the period subsequent to the recording of the mortgage, or a satisfactory continuation of the title evidence accepted by the Administrator at the time the mortgage was insured.\*† [Art. V, par. 5]

§ 533.10 *Fire and hazard insurance.* The mortgagee, without cost or expense to the Administrator shall, in default of the mortgagor, keep the mortgaged premises insured against fire and other hazards as provided in the mortgage. In the event the mortgagee fails to pay any premiums necessary to keep the mortgaged premises so insured and such failure shall continue for fifteen (15) days after receipt of written notice of such failure from the Administrator to the mortgagee, the contract of insurance shall, at the election of the Administrator, thereupon terminate. In the event a loss has occurred to the mortgaged property under any policy of fire or other hazard insurance and the amount of any funds received by the mortgagee in payment of such loss shall be sufficient to pay in full the entire mortgage indebtedness, the mortgage shall, upon receipt of such funds by the mortgagee, be deemed paid and the contract of mortgage insurance made with the Administrator shall thereupon terminate. If, however, any funds so received shall be insufficient to pay such mortgage indebtedness in full, the mortgagee shall not exercise its option under the mortgage to use the proceeds of such insurance for the repairing, replacing, or rebuilding of such premises or to apply such proceeds to the mortgage indebtedness without prior written approval of the Administrator. If the Administrator shall fail to give his approval to the use or application of such funds for either of said purposes within fifteen (15) days after written request by the mortgagee, the mortgagee may use or apply such funds for any of the purposes specified in the mortgage without the approval of the Administrator.\*† [Art. V, par. 6]

§ 533.11 *Mortgage default.* If after the mortgage becomes in default, as provided in § 533.5, the mortgagee does not make the assignment provided in § 533.6, or does not foreclose or otherwise acquire the mortgaged property and make the conveyance provided in § 533.7, and writ-

ten notice thereof is given to the Administrator, or in the event that the mortgagor pays the obligation under the mortgage in full prior to the maturity thereof and the mortgagee pays the adjusted premium charge required under the provisions of § 533.3 of these Regulations and written notice thereof is given to the Administrator, the obligation to pay the annual premium charge shall cease, and all rights of the mortgagee and the mortgagor under §§ 533.6, 533.7 shall terminate as of the date of such notice.\*† [Art. V, par. 7]

§ 533.12 *Termination.* In the event that the mortgagee fails to comply with the provisions of §§ 533.5 (a), 533.6, or §§ 533.5 (b), 533.7, then the contract of insurance shall thereupon terminate.\*† [Art. V, par. 8]

#### Assignments

§ 533.13 *In general.* Bonds or other obligations issued in connection with an insured mortgage executed in the form of an indenture of trust providing for the issue and sale of such bonds or other obligations and appointing a trustee to act on behalf of the holders of such bonds or other obligations may be transferred as provided in the indenture of trust.

An insured mortgage other than a mortgage executed in the form of an indenture of trust providing for the issue and sale of bonds or other obligations and appointing a trustee to act on behalf of the holders of such bonds or other obligations may be transferred (but, except with the written approval of the Administrator, only subsequent to full disbursement of the mortgage loan) to a transferee who is a mortgagee approved by the Administrator. Upon such approval and transfer and the assumption by the transferee of all obligations under the contract of insurance, the transferor shall be released from its obligations under the contract of insurance.\*† [Art. VI, pars. 1-2]

§ 533.14 *Termination of mortgage insurance by assignment.* The contract of insurance shall terminate with respect to mortgages described in § 533.13 upon the happening of either of the following events:

(a) The acquisition of the insured mortgage by or the pledge thereof to any person, firm, or corporation, public or private, except as specifically provided in such § 533.13.

(b) The disposal by a mortgagee of any partial interest in the insured mortgage by means of a declaration of trust or by a participation or trust certificate or by any other device, unless with the prior written approval of the Administrator: *Provided*, That this subdivision (b) shall not be applicable to any mortgage so long as it is held in a common trust fund maintained by a bank or trust company (1) exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank or trust company in its capacity as a

trustee, executor or administrator; and (2) in conformity with the rules and regulations prevailing from time to time of the Board of Governors of the Federal Reserve System, pertaining to the collective investment of trust funds. [Art. VI, par. 3]

#### Rights in Housing Fund

§ 533.15 *No vested right.* Neither the mortgagee nor the mortgagor shall have any vested or other right in the Housing Insurance Fund.\*† [Art. VII]

#### Amendments

§ 533.16 *Amendments to regulations.* These Regulations may be amended by the Administrator at any time and from time to time, in whole or in part, but such amendments shall not affect the contract of insurance on any mortgage already insured or any mortgage or prospective mortgage on which the Administrator has made a commitment to insure.\*† [Art. VIII]

#### Effective Date

§ 533.17 *Effective date.* These Regulations shall be effective as to all mortgages with respect to which a commitment to insure is issued on or after the date hereof. The Administrator with the consent of the mortgagor and the mortgagee may, subject to such conditions as he may impose, amend to conform to these Regulations any contract of insurance or any commitment to insure, issued prior to February 3, 1938. Any mortgagee entitled to receive debentures upon default of a mortgage insured prior to February 3, 1938, may elect to receive, in lieu of such debentures, a cash adjustment and debentures issued as provided in § 533.7 and bearing interest at the rate current at the time of such election.\*†

Issued at Washington, D. C., March 1, 1940. [Art. IX]

[SEAL] STEWART McDONALD,  
Federal Housing Administrator.

#### SMALL SCALE RENTAL HOUSING REGULATIONS (FOR MORTGAGES NOT EXCEEDING \$100,000)

§ 533.18 *Citations.* These Regulations may be cited and referred to as "Regulations of the Federal Housing Administrator for small scale projects under section 207 of the National Housing Act, issued March 1, 1940."\*† [Art. I]

§ 533.19 *Definitions.* As used in these Regulations—

(1) The term "Administrator" means the Federal Housing Administrator.

(2) The term "Act" means the National Housing Act, as amended.

(3) The term "mortgage" means such a first lien upon real estate and other property as is commonly given to secure advances (including but not being limited to advances during construction) on, or the unpaid purchase price of, real estate under the laws of the State, district, or Territory in which the real estate is

located, together with the credit instrument or instruments, if any, secured thereby.

(4) The term "insured mortgage" means a mortgage which has been insured by the endorsement of the Administrator.

(5) The term "mortgagor" means the original borrower under a mortgage and its successors and such of its assigns as are approved by the Administrator.

(6) The term "mortgagee" means the original lender under a mortgage, its successors and such of its assigns as are approved by the Administrator, and includes the holders of the credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee therein named.\*† [Art. II]

#### Premiums

§ 533.20 *Computation of premiums.*

The mortgagee shall pay to the Administrator an annual mortgage insurance premium equal to one-half of one per centum ( $\frac{1}{2}$  of 1%) of the average outstanding principal obligation of the mortgage for the twelve-month period following the date on which such premium becomes payable and calculated in accordance with the amortization provisions without taking into account delinquent payments or prepayments, except that the first mortgage insurance premium shall be equal to one-half of one per centum ( $\frac{1}{2}$  of 1%) of the original face amount of the mortgage, shall be paid on the date on which the mortgage becomes an insured mortgage and shall cover, subject to the adjustment hereinafter provided, the period from the date of endorsement up to and including the date on which the first monthly payment on account of principal is due under the mortgage. The next premium shall be paid on the date on which the first monthly payment of principal is due, and thereafter, until the mortgage is paid in full, or the mortgaged property is acquired by the Administrator as hereinafter set forth, or until the contract of insurance is otherwise terminated, each succeeding premium shall be paid annually on the anniversary of such date, and the amount of the second premium will be adjusted so as to accord with such payment date and so as to render the first premium paid equal to one per centum (1%) of the average outstanding principal obligation of the mortgage during the interval from the date of endorsement up to and including the date on which the first monthly payment on account of principal is due. Such premiums shall be paid either in cash or in debentures issued by the Administrator under Title II of the National Housing Act at par plus accrued interest.\*† [Art. III, par. 1]

§ 533.21 *Prepayment premium charges.* In the event that the principal obligation of any mortgage accepted for

insurance is paid in full prior to maturity, the mortgagee shall within thirty (30) days thereafter notify the Administrator of the date of prepayment and shall collect from the mortgagor and pay to the Administrator in the case of a mortgage prepaid within five years from the date thereof, an adjusted premium charge of two per centum (2%) of the original face amount of the prepaid mortgage, and in the case of a mortgage prepaid after five years from the date thereof, an adjusted premium charge of one per centum (1%) of the original face amount of the prepaid mortgage, except that if at the time of any such prepayment there is placed on the mortgaged property a new insured mortgage in an amount less than the original face amount of the prepaid mortgage, an adjusted premium shall be paid based upon the difference between such amounts at the rate applicable as above stated, depending upon the date of prepayment.

In no event shall the adjusted premium exceed the aggregate amount of premium charges which would have been payable if the mortgage had continued to be insured until maturity.

No adjusted premium shall be collected by the mortgagee in the following cases:

(a) where at the time of such prepayment there is placed on the mortgaged property a new insured mortgage for an amount equal to or greater than the original face amount of the prepaid mortgage; or

(b) where the final maturity specified in the mortgage is accelerated solely by reason of partial prepayments made by the mortgagor which do not exceed in any one calendar year fifteen per centum (15%) of the original face amount of the mortgage; or

(c) where the final maturity specified in the mortgage is accelerated solely by reason of payments to principal to compensate for (1) damage to the mortgaged property, or (2) a release of a part of such property if approved by the Administrator; or

(d) where payment in full is made of a delinquent mortgage on which foreclosure proceedings have been commenced, or for the purpose of avoiding foreclosure, if the transaction is approved by the Administrator.

Upon such prepayment the contract of insurance shall terminate.

The provisions of this section shall not be construed to prohibit the mortgagee from including in the mortgage and collecting from the mortgagor such charge for prepayment as may be agreed upon between the mortgagee and mortgagor.\*† [Art. III, par. 2]

#### Insurance Endorsement

§ 533.22 *Form of endorsement.* Upon compliance satisfactory to the Administrator with the terms and conditions of

his commitment to insure, the Administrator shall endorse the original credit instrument in form as follows:

No. -----

Insured under Section 207 of the National Housing Act and Regulations thereunder of the Federal Housing Administrator.

In effect on ----- To the extent of advances.

Approved by the Administrator.

FEDERAL HOUSING ADMINISTRATOR,

By -----  
Authorized Agent.

Date -----

\*† [Art. IV, par. 1]

§ 533.23 *Contract of insurance.* The mortgage shall be an insured mortgage from the date of such endorsement. The Administrator and the mortgagee shall thereafter be bound by these Regulations with the same force and to the same extent as if a separate contract had been executed relating to the insured mortgage, including the provisions of these Regulations and of the National Housing Act. The term "contract of insurance" as used herein means the agreement evidenced by such endorsement.\*† [Art. IV, par. 2]

§ 533.24 *Final endorsement.* After all advances under the mortgage have been made with the approval of the Administrator, the Administrator will, upon presentation of the original credit instrument, make a notation below the insurance endorsement in form as follows:

A total sum of \$----- has been approved for insurance hereunder by the Administrator.

FEDERAL HOUSING ADMINISTRATOR,

By -----  
Authorized Agent.

Date -----

\*† [Art. IV, par. 3]

#### *Rights and Duties of a Mortgagee Under the Contract of Insurance*

§ 533.25 *Benefits of insurance.* The mortgagee shall be entitled to receive the benefits of the insurance, at its option, either as provided in subsection (a) or subsection (b) hereunder.

(a) If the mortgagor fails to make any payment due under or provided to be paid by the terms of the mortgage and such failure continues for a period of thirty (30) days, the mortgage shall be considered in default, and the mortgagee shall, within thirty (30) days thereafter, give notice in writing to the Administrator of such default. At any time within thirty (30) days after the date of such notice, the mortgagee shall, in such manner as the Administrator may require, assign, transfer, and deliver to the Administrator (without recourse or warranty, except that the mortgagee must warrant that no act or omission of the mortgagee has impaired the validity and priority of the mortgage, that the mortgage is prior to all mechanic's and materialmen's liens filed of record subsequent to the recording of such mortgage regardless of whether such liens attached prior to such recording date, and prior to all liens (other than mechanic's and

materialmen's liens) and encumbrances which may have attached or defects which may have arisen subsequent to the recording of such mortgage except such liens or other matters as may be approved by the Administrator, that the amount stated in the instrument of assignment is actually due and owing under the mortgage, that there are no offsets or counterclaims thereto, and that the mortgagee has a good right to assign the mortgage and the other items enumerated below):

(1) all rights and interest arising under the mortgage so in default;

(2) all claims of the mortgagee against the mortgagor or others, arising out of the mortgage transaction;

(3) all policies of title or other insurance or surety bonds or other guaranties, and any and all claims thereunder;

(4) any balance of the mortgage loan not advanced to the mortgagor;

(5) any cash or property held by the mortgagee or to which it is entitled, as deposits made for the account of the mortgagor and which have not been applied in reduction of the principal of the mortgage indebtedness; and

(6) all records, documents, books, papers, and accounts relating to the mortgage transaction.

Nothing contained in this subsection shall be so construed as to prevent the mortgagee from taking action at a later date than herein specified, provided the Administrator agrees in writing.

(b) If the mortgagor fails to make any payment to the mortgagee required by the mortgage, or to perform any other covenant or obligation under the mortgage, and such failure continues for the period of grace, if any, set forth in the mortgage, the mortgage shall be considered in default, and the mortgagee, within a period of thirty (30) days after the occurrence of a default arising on account of such failure to make any such payment or within such period after the mortgagee shall have knowledge of the occurrence of a default arising on account of such failure to perform any other covenant or obligation under the mortgage, shall give notice in writing to the Administrator of such default. At any time within a period of six (6) months after the date of such notice, the mortgagee, at its election, shall either—

(1) with, and subject to, the consent of the Administrator, acquire by means other than foreclosure of the mortgage, possession of, and title to, the mortgaged property; or

(2) institute proceedings for the foreclosure of the mortgage and obtain possession of the mortgaged property and the income therefrom through the voluntary surrender thereof by the mortgagor or institute, and prosecute with reasonable diligence, proceedings for the appointment of a receiver of the mortgaged property and the income therefrom or proceed to exercise such other rights and

remedies as may be available to it for the protection and preservation of the mortgaged property and the income therefrom under the mortgage and the law of the particular jurisdiction: *Provided*, That if the laws of the State in which the mortgaged property is situated do not permit the institution of such proceedings within such period of time, the mortgagee shall institute such proceedings within sixty (60) days after the expiration of the time during which the institution of such proceedings is prohibited by such laws. Nothing contained in this subsection shall be so construed as to prevent the mortgagee from taking action at a later date than herein specified, provided the Administrator so agrees in writing. The mortgagee shall promptly give notice in writing to the Administrator of the institution of foreclosure proceedings under this subsection and shall exercise reasonable diligence in prosecuting such proceedings to completion.

If after default and prior to the completion of foreclosure proceedings the mortgagor shall pay to the mortgagee all periodic payments in default and such expenses as the mortgagee shall have incurred in connection with the foreclosure proceedings, notice thereof shall be given to the Administrator by the mortgagee, and the insurance shall continue as if such default had not occurred.\*† [Art. V, par. 1]

§ 533.26 *Computation of benefits received by assignment.* If the mortgagee elects to proceed under, and does proceed under and in accordance with, the provisions of § 533.25 (a), and furnishes evidence satisfactory to the Administrator that there are no past due and unpaid ground rents, general taxes, or special assessments, and furnishes the warranties described in said § 533.25 (a), the Administrator shall deliver to the mortgagee—

(a) Debentures of the Housing Insurance Fund as set forth in section 207 of the Act, having a total face value equal to the original face amount of the mortgage plus such amounts as have been paid by the mortgagee for (1) taxes, special assessments, and water rates, which are liens prior to the mortgage; (2) insurance on the property; and (3) expenses for the completion or preservation of the property, subsequent to the default, and which have been approved by the Administrator, as reasonable and necessary; less the sum of (i) that part of the amount of the principal obligation that has been repaid. (ii) an amount equivalent to two per centum (2%) of the principal amount of the mortgage advanced to the mortgagor and unpaid, and (iii) any net income received by the mortgagee from the property: *Provided*, That such debentures shall be issued in multiples of \$50 and any difference, not in excess of \$50, between the amount of debentures to which the mortgagee is otherwise entitled hereunder and the aggregate face value of the de-



debentures issued shall be paid in cash by the Administrator to the mortgagee. Such debentures shall be dated as of the date of such assignment, transfer, and delivery, and shall bear interest at the rate of two and three-quarters per centum (2¾%) per annum, payable semi-annually on the first day of January and the first day of July of each year, and shall mature three (3) years after the first day of July following the maturity date of the mortgage in exchange for which the debentures were issued. Such debentures shall be registered as to principal and interest and all or any such debentures may be redeemed at the option of the Administrator, with the approval of the Secretary of the Treasury, at par and accrued interest on any interest payment date on three (3) months' notice of redemption given in such manner as the Administrator shall prescribe.

(b) A certificate of claim in accordance with section 207 (h) of the Act which shall become payable, if at all, upon the sale and final liquidation of the interest of the Administrator in such property, in accordance with section 207 (h) of the Act. This certificate shall be for an amount which the Administrator determines to be sufficient, when added to the face value of the debentures issued and the cash adjustment paid to the mortgagee, to equal the amount which the mortgagee would have received if, on the date of the assignment, transfer and delivery to the Administrator provided for in § 533.25 (a), the mortgagor had extinguished the mortgage indebtedness by payment in full of all obligations under the mortgage. Such certificate of claim shall provide that there shall accrue to the holder of such certificate, with respect to the face amount of such certificate, an increment at the rate of three per centum (3%) per annum, which shall not be compounded. If any excess is realized from the mortgage, and all claims in connection therewith so assigned, transferred and delivered, and from the property covered by such mortgage and all claims in connection with such property, after deducting all expenses incurred by the Administrator in handling, dealing with, acquiring title to, and disposing of such mortgage and property and in collecting such claims, such excess shall be applied in payment of the certificate of claim and any balance thereafter shall be paid to the mortgagor, as provided in section 207 (h) (1) of the Act.\*† [Art. V, par. 2]

§ 533.27 *Computation of benefits received by conveyance.* If the mortgagee elects to proceed under, and does the provisions of § 533.25 (b), and at proceed under and in accordance with, any time within thirty (30) days (or such further time as may be allowed by the Administrator in writing) after acquiring title to and possession of\* the mortgaged property in accordance with

such subsection, tenders to the Administrator possession of, and a deed containing a covenant which warrants against acts of the mortgagee and all claiming by, through, or under it conveying title to, such property, satisfactory to the Administrator, as provided in § 533.28, and assigns (without recourse or warranty) any and all claims which it has acquired in connection with the mortgage transaction and as a result of the foreclosure proceedings or other means by which it acquired such property, including any claim on account of title insurance and fire, or other hazard insurance, except such claims as may have been released with the prior approval of the Administrator, the Administrator shall promptly accept conveyance of such property and such assignment, notwithstanding that the buildings or improvements thereon may be incomplete, or may have been destroyed, damaged, or injured in whole or part, and shall deliver to the mortgagee—

(a) Debentures of the Housing Insurance Fund as set forth in section 204 of the Act, in a principal amount equal to the principal of the mortgage which has been advanced with the written approval of the Administrator and which is unpaid on the date of the institution of foreclosure proceedings or the acquisition of the property after default other than by foreclosure, plus the amount of all payments which have been made by the mortgagee for taxes, ground rents, and water rates, which are liens prior to the mortgage, special assessments which are noted on the application for insurance or which become liens after the insurance of the mortgage, insurance on the mortgaged property, and any mortgage insurance premiums paid after either of such dates, less any amount received on account of the mortgage, and any amount received as rent or other income from the property, after deducting therefrom reasonable expenses incurred in handling the property, after either of such dates: *Provided*, That such debentures shall be issued in multiples of \$50 and any difference, not to exceed \$50, between the amount of debentures to which the mortgagee is otherwise entitled hereunder and the aggregate face value of the debentures issued shall be paid in cash. Such debentures shall be dated as of the date foreclosure proceedings were instituted, or the property was otherwise acquired by the mortgagee after default, and shall bear interest from such date at the rate of two and three-quarters per centum (2¾%) per annum, payable semiannually on the first day of January and the first day of July of each year, and shall mature three (3) years after the first day of July following the maturity date of the mortgage on the property in exchange for which the debentures were issued. Such debentures shall be registered as to principal and interest and all or any such debentures may be

redeemed at the option of the Administrator, with the approval of the Secretary of the Treasury, at par and accrued interest on any interest payment date on three (3) months' notice of redemption given in such manner as the Administrator shall prescribe.

(b) A certificate of claim in accordance with Section 204 (e) of the Act, which shall become payable, if at all, upon the sale and final liquidation of the interest of the Administrator in such property, in accordance with Section 204 (f) of the Act. This certificate shall be for an amount which the Administrator shall determine to be sufficient to pay all amounts due under the mortgage and not covered by the amount of debentures and shall include a reasonable amount for necessary expenses incurred by the mortgagee in connection with the foreclosure proceedings or the acquisition of the mortgaged property otherwise and the conveyance thereof to the Administrator. Each such certificate of claim shall provide that there shall accrue to the holder thereof with respect to the face amount of such certificate, an increment at the rate of three per centum (3%) per annum, which shall not be compounded. If any excess is realized from the property conveyed to the Administrator and the claims assigned therewith, after deducting all expenses incurred by the Administrator in handling, dealing with, and disposing of such property and in collecting such claims, such excess shall be applied in payment of the certificate of claim and any balance thereafter shall be paid to the mortgagor, as provided in section 204 (f) of the Act.\*† [Art. V, par. 3]

§ 533.28 *Title in case of conveyance.* Title satisfactory to the Administrator within the meaning of § 533.27 will be such title as was vested in the mortgagor as of the date the mortgage was filed for record, but must be free and clear of all mechanics' and materialmen's liens filed of record subsequent to the recording of such mortgage regardless of whether such liens attached prior to such recording date, and free and clear of all liens and encumbrances which may have attached, or defects which may have arisen subsequent to the recording of such mortgage, except such liens or other matters as may be approved by the Administrator.\*† [Art. V, par. 4]

§ 533.29 *Evidence of title.* The mortgagee, at the time a deed is tendered in accordance with § 533.27, shall furnish to the Administrator without expense to him satisfactory evidence of such title. Such title evidence shall be executed as of a date to include the recordation of the deed to the Administrator and, at the option of the mortgagee, may be in the form of an owner's policy of title insurance, or a satisfactory abstract and attorney's opinion covering the period subsequent to the recording of the mortgage, or a satisfactory continuation of the title evidence accepted by the Ad-

ministrator at the time the mortgage was insured.\*† [Art. V, par. 5]

§ 533.30 *Hazard insurance.* The mortgagee without cost or expense to the Administrator shall, in default of the mortgagor, keep the mortgaged premises insured against fire and other hazards as provided in the mortgage. In the event the mortgagee fails to pay any premiums necessary to keep the mortgaged premises so insured and such failure shall continue for fifteen (15) days, the contract of insurance shall, at the election of the Administrator, thereupon terminate. In the event a loss has occurred to the mortgaged property under any policy of fire or other hazard insurance and the amount of any funds received by the mortgagee in payment of such loss shall be sufficient to pay in full the entire mortgage indebtedness, the mortgage shall, upon receipt of such funds by the mortgagee, be deemed paid and the contract of mortgage insurance made with the Administrator shall thereupon terminate. If, however, any funds so received shall be insufficient to pay such mortgage indebtedness in full, the mortgagee shall not exercise its option under the mortgage to use the proceeds of such insurance for the repairing, replacing, or rebuilding of such premises or to apply such proceeds to the mortgage indebtedness without prior written approval of the Administrator. If the Administrator shall fail to give his approval to the use or application of such funds for either of said purposes within fifteen (15) days after written request by the mortgagee, the mortgagee may use or apply such funds for any of the purposes specified in the mortgage without the approval of the Administrator.\*† [Art. V, par. 6]

§ 533.31 *Mortgage default.* If after the mortgage becomes in default, as provided in § 533.25, the mortgagee does not make the assignment provided in § 533.26, or does not foreclose or otherwise acquire the mortgaged property and make the conveyance provided in § 533.27, and written notice thereof is given to the Administrator; or in the event that the mortgagor pays the obligation under the mortgage in full prior to the maturity thereof and the mortgagee pays the adjusted premium charge required under the provisions of § 533.21 of these Regulations and written notice thereof is given to the Administrator, the obligation to pay the annual premium charge shall cease, and all rights of the mortgagee and the mortgagor under §§ 533.26, 533.27 shall terminate as of the date of such notice.\*† [Art. V, par. 7]

§ 533.32 *Termination of contract of insurance.* In the event that the mortgagee fails to comply with the provisions of §§ 533.25 (a), 533.26, or §§ 533.25 (b), 533.27, then the contract of insurance shall thereupon terminate.\*† [Art. V, par. 8]

#### Assignments

§ 533.33 *In general.* Bonds or other obligations issued in connection with an

insured mortgage executed in the form of an indenture of trust providing for the issue and sale of such bonds or other obligations and appointing a trustee to act on behalf of the holders of such bonds or other obligations may be transferred as provided in the indenture of trust.

An insured mortgage, other than a mortgage executed in the form of an indenture of trust providing for the issue and sale of bonds or other obligations and appointing a trustee to act on behalf of the holders of such bonds or other obligations, may be transferred (but, except with the written approval of the Administrator, only subsequent to full disbursement of the mortgage loan) to a transferee who is a mortgagee approved by the Administrator. Upon such approval and transfer and the assumption by the transferee of all obligations under the contract of insurance, the transferor shall be released from its obligations under the contract of insurance.\*† [Art. VI, pars. 1-2]

§ 533.34 *Termination of contract of insurance by assignment.* The contract of insurance shall terminate with respect to mortgages described in § 533.33 upon the happening of either of the following events:

(a) The acquisition of the insured mortgage by or the pledge thereof to any person, firm, or corporation, public or private, except as specifically provided in such § 533.33.

(b) The disposal by a mortgagee of any partial interest in the insured mortgage by means of a declaration of trust or by a participation or trust certificate or by any other device, unless with the prior written approval of the Administrator: *Provided*, That this subsection (b) shall not be applicable to any mortgage so long as it is held in a common trust fund maintained by a bank or trust company (1) exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank or trust company in its capacity as a trustee, executor or administrator; and (2) in conformity with the rules and regulations prevailing from time to time of the Board of Governors of the Federal Reserve System, pertaining to the collective investment of trust funds.\*† [Art. VI, par. 3]

#### Rights in Housing Fund

§ 533.35 *No vested right.* Neither the mortgagee nor the mortgagor shall have any vested or other right in the Housing Insurance Fund.\*† [Art. VII]

#### Amendments

§ 533.36 *Amendments to Regulations.* These Regulations may be amended by the Administrator at any time and from time to time, in whole or in part, but such amendments shall not affect the contract of insurance on any mortgage already insured or any mortgage or prospective mortgage on which the Administrator has made a commitment to insure.\*† [Art. VIII]

#### Effective Date

§ 533.37 *Effective date.* These Regulations shall be effective as to all mortgages with respect to which a commitment to insure is issued on or after the date hereof. The Administrator with the consent of the mortgagor and the mortgagee may, subject to such conditions as he may impose, amend to conform to these Regulations any contract of insurance or any commitment to insure, issued prior to February 3, 1938. Any mortgagee entitled to receive debentures upon default of a mortgage insured prior to February 3, 1938, may elect to receive, in lieu of such debentures, a cash adjustment and debentures issued as provided in § 533.27 and bearing interest at the rate current at the time of such election.\*†

Issued at Washington, D. C., March 1, 1940.\*† [Art. IX]

[SEAL] STEWART McDONALD,  
Federal Housing Administrator.

[F. R. Doc. 40-1003; Filed, March 11, 1940; 2:51 p. m.]

## TITLE 29—LABOR

### CHAPTER II—NATIONAL LABOR RELATIONS BOARD

#### AMENDMENT TO BOARD RULES AND REGULATIONS

Section 202.37, National Labor Relations Board Rules and Regulations, Series 2,<sup>1</sup> as amended, is hereby amended by striking out the words "of receipt" in the first sentence of the next to the last paragraph thereof; by striking out in the first sentence of the last paragraph the words "or to file a brief with the Board" and the word "receipt"; and by striking out the words "for any such submission of briefs and" in the second sentence of the last paragraph thereof; and by inserting the following sentence at the beginning of the last paragraph "Any party may, within thirty days after the date of the proposed findings of fact, proposed conclusions of law, and proposed order, file a brief with the Board" and by inserting into the present first sentence of the last paragraph the word "date" in place of the word "receipt"; and by inserting the words "of such" between the words "place" and "oral" in the second sentence of the last paragraph thereof. As amended the entire § 202.37, Rules and Regulations, Series 2, as amended, shall read as follows:

"§ 202.37 After a hearing for the purpose of taking evidence upon the complaint in any proceeding over which the Board has assumed jurisdiction in accordance with § 202.36, the Board may—

"(a) direct that the Trial Examiner prepare an Intermediate Report, in

<sup>1</sup> 4 F. R. 3135.

which case the provisions of §§ 202.32-202.35, inclusive, shall in so far as applicable govern subsequent procedure, and the powers granted to Regional Directors in such provision shall for the purpose of this section be reserved to and exercised by the Board; or

"(b) reopen the record and receive further evidence, or require the taking of further evidence before a member of the Board, or other agent or agency; or

"(c) issue proposed findings of fact, proposed conclusions of law and proposed order; or

"(d) make other disposition of the case.

"If any party desires to take exception to the proposed findings of fact, proposed conclusions of law, and proposed order, issued pursuant to paragraph (c) of this section, he shall, within twenty days from the date thereof, file with the Board at Washington, D. C., an original and three copies of a statement in writing setting forth such exceptions as he relies upon and shall serve a copy thereof upon each of the other parties and the Regional Director. Upon proper cause shown, the Board may extend the period within which to file a statement of exceptions.

"Any party may, within thirty days after the date of the proposed findings of fact, proposed conclusions of law and proposed order, file a brief with the Board. Should any party desire permission to argue orally before the Board, request therefor must be made in writing to the Board within twenty days after the date of the proposed findings of fact, proposed conclusions of law, and proposed order. The Board shall notify the parties of the time and place of such oral argument. Thereafter the Board shall forthwith decide the matter or make other disposition of the case."

Signed at Washington this 11th day of March 1940.

[SEAL] J. WARREN MADDEN,  
*Chairman.*  
EDWIN S. SMITH,  
*Member.*  
WM. M. LEISERSON,  
*Member.*

[F. R. Doc. 40-1008; Filed, March 12, 1940; 11:08 a. m.]

**Notices**

**FEDERAL POWER COMMISSION.**

[Docket No. IT-5599]

IN THE MATTER OF ROBERTS COUNTY POWER COMPANY

NOTICE OF APPLICATION

MARCH 12, 1940.

Notice is hereby given that on March 11, 1940, an application was filed with the Federal Power Commission, pursuant to

Section 203 of the Federal Power Act, by the Roberts County Power Company, a corporation organized under the laws of the State of South Dakota and doing business in the States of North Dakota and South Dakota, with its principal office at New Effington, South Dakota, seeking an order authorizing the sale of all of its electric facilities consisting of a transmission system, rural distribution and five small urban distribution systems, all located in Roberts County, South Dakota, and Richland County, North Dakota, adjacent to the Minnesota state line, to Otter Tail Power Company. The consideration for such sale, the application states, will be the sum of \$35,000.00 in cash; all as more fully appears in the application on file with the Commission.

Any person desiring to be heard or to make any protest with reference to said application should, on or before the 27th day of March, 1940, file with the Federal Power Commission a petition or protest in accordance with the Commission's Rules of Practice and Regulations.

[SEAL] LEON M. FUQUAY,  
*Secretary.*

[F. R. Doc. 40-1015; Filed, March 12, 1940; 11:36 a. m.]

**SECURITIES AND EXCHANGE COMMISSION.**

*United States of America—Before the Securities and Exchange Commission*

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 7th day of March, A. D. 1940.

[File No. 43-287]

IN THE MATTER OF PUBLIC SERVICE COMPANY OF OKLAHOMA

ORDER PERMITTING DECLARATION TO BECOME EFFECTIVE

Public Service Company of Oklahoma, an indirect subsidiary of The Middle West Corporation, a registered holding company, having filed a declaration and amendments thereto pursuant to Section 7 of the Public Utility Holding Company Act of 1935 regarding the issue and sale to three banks of \$1,000,000 principal amount of 1¾%-2¾% Unsecured Serial Notes due semi-annually August 1, 1941 to February 1, 1946;

A public hearing having been held on said declaration, as amended, after appropriate notice; the Commission having considered the record in this matter, and having made and filed its findings and opinion herein;

*It is ordered,* That said declaration as amended be, and the same hereby is, permitted to become effective, subject to the following conditions:

(1) That the issue and sale of the aforesaid notes shall be effected in substantial compliance with the terms and conditions set forth in and for the purposes represented by, said declaration, as amended;

(2) That the transactions set forth in the declaration, as amended, be consummated within sixty (60) days after the date of this order; and

(3) That within ten (10) days after the issue and sale of the said notes, declarant shall file with this Commission a certificate of notification showing that such issue and sale have been effected in substantial compliance with the terms and conditions set forth in, and for the purposes represented by, said declaration, as amended.

By the Commission.

[SEAL] FRANCIS P. BRASSOR,  
*Secretary.*

[F. R. Doc. 40-1009; Filed, March 12, 1940; 11:26 a. m.]

*United States of America—Before the Securities and Exchange Commission*

At a regular session of the Securities and Exchange Commission held at its office in the City of Washington, D. C., on the 8th day of March, A. D. 1940.

[File No. 67-7]

IN THE MATTER OF AMERICAN GAS AND ELECTRIC COMPANY

ORDER PERMITTING DECLARATION TO BECOME EFFECTIVE

American Gas and Electric Company, a registered holding company, having filed on February 5, 1940, a declaration pursuant to Rule U-12B-1, promulgated under the Public Utility Holding Company Act of 1935, and having filed on March 8, 1940, an amendment to said declaration, by which amended declaration said American Gas and Electric Company proposes (1) to make a cash contribution of \$1,200,000 to the capital of Appalachian Electric Power Company, a subsidiary company of the declarant, and (2) to lend \$250,000 on open account to Kentucky and West Virginia Power Company, Incorporated, a subsidiary company of the declarant; and

The Commission having on February 12, 1940, given notice that, pursuant to the provisions of Rule U-12B-1, said declaration would become effective on the 26th day of February, 1940, unless prior to that date the Commission should issue an order for hearing on such declaration, or unless declarant should file an amendment thereto or should designate a later date in an amendment thereto or in written or telegraphic notice to the Commission; and

The Commission having on February 14, 1940, issued a Notice of and Order for Hearing on said declaration, such hearing to be held on February 20, 1940; and

A public hearing having been duly held in accordance with such notice, and the Commission having examined the record herein and having found that the transactions proposed in the declaration as amended are in the public interest and in the interest of investors and consumers and not in circumvention of any provisions of the Act, or rule or order of the Commission thereunder;

*It is ordered,* That the amended declaration filed by American Gas and Electric Company pursuant to Rule U-12B-1 shall become effective immediately, without prejudice to any future application of American Gas and Electric Company for approval of the acquisition of additional common stock of Appalachian Electric Power Company for the \$1,200,000 contribution to capital of that company made pursuant to the amended declaration; and

*It is further ordered,* That the \$1,200,000 contribution by American Gas and Electric Company to capital of Appalachian Electric Power Company shall be recorded by American Gas and Electric Company on its books in Investment Account 100 as prescribed by the Uniform System of Accounts For Public Utility Holding Companies as an additional investment in the common stock of Appalachian Electric Power Company.

By the Commission.

[SEAL] FRANCIS P. BRASSOR,  
Secretary.

[F. R. Doc. 40-1010; Filed, March 12, 1940;  
11:26 a. m.]

*United States of America—Before the Securities and Exchange Commission*

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 11th day of March, A. D. 1940.

[File No. 31-221]

IN THE MATTER OF THE APPLICATION OF EASTERN SHORE PUBLIC SERVICE COMPANY (DELAWARE)

ORDER DENYING EXEMPTION

Eastern Shore Public Service Company (Delaware) having made application for exemption from the provisions of the Public Utility Holding Company Act of 1935 pursuant to Section 3 (a) (2) thereof; notice and opportunity for hearing on said application having been duly given; a hearing having been held on said application; requests for specific findings of fact and briefs having been filed; oral argument having been had before the Commission; the record having been duly considered by the Commission, and the Commission having made appropriate findings of fact as fully set forth in the Findings and Opinion of the Commission this day issued;

*It is ordered,* That the application for exemption be and it is hereby denied.

By the Commission.

[SEAL] FRANCIS P. BRASSOR,  
Secretary.

[F. R. Doc. 40-1011; Filed, March 12, 1940;  
11:26 a. m.]

*United States of America—Before the Securities and Exchange Commission*

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 11th day of March, A. D. 1940.

[File No. 2-2305]

IN THE MATTER OF REITER-FOSTER OIL CORPORATION  
STOP ORDER

This matter coming on to be heard before the Commission on the registration statement (File 2-2305) of Reiter-Foster Oil Corporation a Delaware corporation, after confirmed telegraphic notice to the registrant that it appears that the registration statement includes untrue statements of material facts and omits to state material facts necessary in order to make the statements made not misleading;

Evidence having been received upon the matters set forth in the Statement of Matters to the Considered duly served by the Commission on said registrant; exceptions to the findings of the trial examiner and briefs in support thereof having been filed by counsel for the Commission and counsel for the registrant; oral argument having been heard by the Commission; and

The Commission having duly considered the record, having read the briefs and heard the arguments of counsel and being fully advised in the premises, and finding that the registration statement includes untrue statements of material facts and omits to state material facts required to be stated therein and material facts necessary in order to make the statements therein made not misleading; all as more fully set forth in the Commission's Findings and Opinion this day issued;

*It is offered,* pursuant to Section 8 (d) of the Securities Act of 1933, that the effectiveness of the registration statement (File 2-2305) filed by Reiter-Foster Oil Corporation be and it is hereby suspended.

By the Commission.

[SEAL] FRANCIS P. BRASSOR,  
Secretary.

[F. R. Doc. 40-1012; Filed, March 12, 1940;  
11:26 a. m.]