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FACTS ABOUT

Housing

Credit Controls



1- through 4-family residences

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HOUSING AND HOME FINANCE AGENCY
OFFICE OF THE ADMINISTRATOR

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Facts About Housing Credit Controls— I- Through 4-Family Residences

Why Housing Credit Is Being Restricted

To reduce serious inflationary pressures and to cut back home building in 1951 to a level which can be met with the materials and labor available consonant with defense requirements.

What the Regulations Concern

The amount of money that may be borrowed on the security of, or to finance the purchase, construction, or improvement of, one-through four-family residences.* Credit outstanding must be taken into consideration. In the case of Government-aided loans, the regulations apply to both old and new construction. In the case of non-Government aided loans, the regulation issued by the Federal Reserve Board (Regulation X) applies only to new construction, which is defined as any residential construction started after noon of August 3, 1950. The regulations apply to the 48 States and the District of Columbia.

What Is Covered

Loans for more than \$2,500 on one- through four-family residences (including major additions or improvements), with exceptions noted hereafter.

An addition or improvement comes under the Federal Reserve Board's Regulation X or the Federal Housing Administration's corresponding credit restrictions if the cost or estimated cost is more than \$2,500 AND if such cost or estimated cost is more than \$1,500 per unit based on the number of units in the structure before the addition or improvement. When nonresidential property is converted to residential property these restrictions govern if the cost or estimated cost is more than \$1,500 per unit based on the number of units created by the conversion. (Veterans' Administration and Department of Agriculture credit restrictions concerning additions or improvements vary from the foregoing. For details, see regulations issued by those agencies.)

*See separate pamphlet, Facts About Housing Credit Controls—Multi-Family Residences.

Who Must Comply

In the case of non-Government aided loans, all persons or companies who during the current calendar year or during the preceding calendar year made more than three real estate loans, or who during the current calendar year or during the preceding calendar year made real estate loans aggregating more than \$50,000. In the case of Government-aided loans, the lender who makes a Federal Housing Administration-insured or VA-guaranteed loan must comply with the regulations governing that loan regardless of the extent of his other lending activity. All direct Government loans for housing under the VA and Farm Housing or Farm Ownership programs are also covered.

Who Administers the Regulations

The Defense Production Act of 1950 authorizes the President to prescribe controls over the terms of certain types of credit on real estate. Acting under that law, the President delegated to the Federal Reserve Board authority to control non-Government-aided credit on property the construction of which was begun after noon, August 3, 1950; at the same time, the President delegated to the Administrator of the Housing and Home Finance Agency authority to control credit on Government-aided real-estate loans, both old and new construction. The Executive order further provided that the concurrence of the HHFA Administrator was required in credit regulations issued by the Federal Reserve Board, and that credit restrictions imposed by the HHFA Administrator be comparable to the fullest extent practicable with those issued by the Federal Reserve Board. (The HHFA Administrator, in connection with his responsibilities, works with and through the several Federal agencies which provide residential credit aids.)

Acting under that delegation of power, the Federal Reserve Board issued Regulation X, applying credit restrictions, effective October 12, 1950, to non-Government-aided loans for new one- and two-family homes. Later the Federal Reserve Board issued an amended Regulation X effective January 12, 1951, extending credit restrictions to three- and four-family residences and multi-family residences. In each instance, regulations governing credit terms for Government-aided residential real-estate loans were revised to bring them into general conformity with Regulation X, except for the statutory requirement of maintaining relative preferences for veterans. The Federal Reserve Board administers its amended Regulation X. The Federal Housing Administration, the Veterans' Administration, and the Farmers' Home Administration (Department of Agriculture) carry out the actual detailed administration of the credit restrictions

on Government-aided residential real-estate loans in accordance with policies established or approved by the HHFA Administrator.

What Type of Restrictions Are Used

The principal restriction relates to the maximum amount of credit which may be outstanding with respect to the residential property. In the case of purchase of property, this is in effect the requirement of a minimum cash down payment based on the value of each family unit in the structure (generally, this is based on total price or cost of the structure, including closing costs but excluding prepaid portions of such items as taxes and insurance). Value is defined in some cases as the bona fide sales price of a property and in others as its appraised value. The cash down payment may not be borrowed from any source, except for loans against life insurance policies. The regulations also limit the maximum maturity of loans covered, and contain certain requirements as to rate of amortization.

What the Principal Requirements Are

1. **Cash down payments and maximum loans.** For conventional and FHA-insured loans, the minimum down payments and maximum loans are the same. (See (a) immediately following.)

(a) For conventional loans (controlled by Federal Reserve Board regulations) and for Federal Housing Administration-insured loans the maximum loans and minimum down payments for one-through four-family houses are computed on the following basis:

If the value per family unit is—	The maximum loan per family unit is—	The minimum cash down payment per family unit is—
Not more than \$5,000...	90 percent of value.....	10 percent.
More than \$5,000 but not more than \$9,000.	\$4,500 plus 65 percent of excess over \$5,000.	\$500 plus 35 percent of excess over \$5,000.
More than \$9,000 but not more than \$15,000.	\$7,100 plus 60 percent of excess over \$9,000.	\$1,900 plus 40 percent of excess over \$9,000.
More than \$15,000 but not more than \$20,000.	\$10,700 plus 20 percent of excess over \$15,000.	\$4,300 plus 80 percent of excess over \$15,000.
More than \$20,000 but not more than \$24,250.	\$11,700 plus 10 percent of excess over \$20,000.	\$8,300 plus 90 percent of excess over \$20,000.
Over \$24,250.....	50 percent of value.....	50 percent of value.

(NOTE: In no event may an FHA-insured maximum loan exceed the maximum ratio of loan to value as prescribed in the National Housing Act, or the maximum loan prescribed in the FHA credit regulation, whichever is the smaller.)

(b) For VA-guaranteed loans the maximum loans and minimum down payments are computed on the following basis:

If the transaction price per family unit is—	The maximum loan per family unit is—	The minimum cash down payment per family unit is—
\$5,000 or less.....	95 percent.....	5 percent.
More than \$5,000 but not more than \$6,000.	\$4,750 plus 100 percent of excess over \$5,000.	\$250.
More than \$6,000 but not more than \$9,000.	\$5,750 plus 75 percent of excess over \$6,000.	\$250 plus 25 percent of excess over \$6,000.
More than \$9,000 but not more than \$12,000.	\$8,000 plus 70 percent of excess over \$9,000.	\$1,000 plus 30 percent of excess over \$9,000.
More than \$12,000 but not more than \$15,000.	\$10,100 plus 45 percent of excess over \$12,000.	\$1,900 plus 55 percent of excess over \$12,000.
More than \$15,000 but not more than \$20,000.	\$11,350 plus 25 percent of excess over \$15,000.	\$3,550 plus 75 percent of excess over \$15,000.
More than \$20,000 but not more than \$24,250.	\$12,700 plus 15 percent of excess over \$20,000.	\$7,300 plus 85 percent of excess over \$20,000.
Over \$24,250.....	55 percent of value.....	45 percent of value.

(NOTE: Notwithstanding the above minimum requirements, the purchase price for a house financed with a VA-guaranteed loan may not exceed the reasonable value of the house approved by the VA. Also, a 4-family residence being purchased by two or more persons cooperatively is governed by a different schedule. See *Facts About Housing Credit Controls—Multi-Family Residences.*)

(c) For the Farm Housing and Farm Ownership loans administered by the Farmers' Home Administration of the Department of Agriculture, the maximum loan and the minimum down payment for the construction or improvement of a farm residence is the same as for a Federal Housing Administration-insured loan or a conventional loan where the applicant is a nonveteran; it is the same as for a VA-guaranteed loan where the applicant is a veteran.

2. Maximum Maturities. Maturities are limited to 20 years, except for housing priced at \$7,000 or less per family unit, for which loans may run 25 years if they are made on a basis which fully liqui-

dates the debt by maturity through substantially equal periodic payments toward principal or principal and interest. In the case of FHA insured mortgages, 25-year terms are permitted where the mortgage amount is \$5,800 or less per family unit—this test being in lieu of the \$7,000 value per unit test. In the case of a VA-guaranteed loan, the maximum maturity may run as high as 30 years in a case of the veteran's demonstrated need for the longer term as approved by the VA. In the case of an Agriculture Department Farm Ownership loan, the same maximum maturities as in the case of conventional loans apply if more than 75 percent of the loan is for construction of a dwelling.

What Exemptions and Exceptions Are Made

The following section on exemptions and exceptions is a nontechnical presentation for general informational purposes. For a controlling and detailed statement applicable to specific cases, it is necessary to consult the applicable regulation or the agency administering it.

Regulation X, as amended, of the Federal Reserve Board and the corresponding regulations of the Federal Housing Administration, the Veterans Administration, and the Department of Agriculture which govern the amount of the credit and down payment for residential real estate loans contain certain exemptions. Since these exemptions or exceptions necessarily differ with the type of loan—i. e., conventional, FHA, VA, or Department of Agriculture—they are taken up separately in that order:

A. Non-Government Aided Loans. The regulation issued by the Federal Reserve Board, known as Regulation X as amended, does not apply to non-Government aided loans if one or more of the following conditions exist:

1. If construction began before 12 o'clock meridian, August 3, 1950.
2. If construction began after August 3, 1950, AND the credit (financing) is extended before May 1, 1951, it will be exempt in the case of one- and two-family residences if construction was begun before October 12, 1950, or in the case of three- and four-family residences if construction was begun before January 12, 1951.
3. If the loan is for construction credit and matures in not more than 18 months.
4. If a firm commitment to extend credit was made prior to October 12, 1950, in the case of one- and two-family residences, or prior to January 12, 1951, in the case of three- and four-family residences. Such commitment means either a written agreement or any other firm

agreement to extend credit if entered into in good faith by the parties and relied on by the prospective borrower. If such nonwritten agreement is claimed as the basis of exemption, certain reports were required to be made to the Federal Reserve Bank of the district before January 1, 1951, in the case of one- and two-family residences. Such reports must be made prior to March 15, 1951, in the case of three- and four-family residences.

5. If a builder or other person who made substantial commitments or undertakings before August 3, 1950, with a view to building new residential construction, is able to show that compliance with Regulation X would result in his inability to obtain contemplated credit to finance such new construction and thereby cause him substantial hardship. Such a person would present his application to the Federal Reserve Bank of his district prior to March 15, 1951.

6. If the money borrowed on real estate covered by the Regulation is used to pay medical expenses, or to reconstruct or repair a residence destroyed or substantially damaged by flood, fire, or similar casualty.

7. If the money borrowed on real estate covered by the Regulation is used on farm property other than for the construction of a residence on the farm.

B. Federal Housing Administration-Insured Loans. There is only one general exemption from the amendments and instructions issued by FHA to bring its regulations for one- through four-family unit housing into general conformity with Regulation X, as amended. That general exemption is if an application for an FHA-insured mortgage on a one- or two-family dwelling was filed prior to October 12, 1950; or if an application for an FHA-insured mortgage on a three- or four-family dwelling was filed prior to January 12, 1951. However, some flexibility is provided by the FHA regulations whereby the Federal Housing Commissioner may, in his discretion, waive or modify the credit restrictions in certain cases as, for example, where the credit is to be used for repairing or replacing a house damaged or destroyed by fire or other casualty or where the credit is incidental to a foreclosure proceeding involving an FHA-insured home.

C. VA-Guaranteed Loans. The regulations issued by VA to bring its operations in general conformity with Regulation X, as amended (with allowance for the preferences to veterans as previously noted) do not apply if one or more of the following conditions exists:

1. If the structure was not previously occupied and was begun prior to August 3, 1950, in the case of a one- or two-family residence, or prior to January 12, 1951, in the case of a three- or four-family residence.

2. In the case of a one- or two-family dwelling, if a bona fide contract, in writing, was made prior to October 12, 1950, between a builder or seller and the veteran for the purchase, construction, repair, alteration, or improvement of the home. In the case of a three- or four-family dwelling, if such a contract was executed prior to January 12, 1951.

3. In the case of a one- or two-family dwelling, if a request for determination of reasonable value of the home was received by VA, or an application for an FHA-insured mortgage was received by FHA, prior to October 12, 1950. In the case of a three- or four-family dwelling, only if a request for determination of reasonable value of the home was received by VA prior to January 12, 1951.

4. In the case of a one- or two-family residence, if the loan was exempt from the temporary credit controls of July 19, 1950, because certain construction work was "begun," as that term was defined in VA's July 19 controls.

5. If the loan on real estate is made solely to replace, reconstruct, or repair residential property destroyed or substantially damaged by flood, fire, or similar casualty.

D. Farm Housing and Farm Ownership Loans. In the case of the Department of Agriculture's Farm Housing and Farm Ownership loans (administered by the Farmers' Home Administration), the credit restrictions apply only to funds advanced for dwelling constructions, and do not apply to amounts loaned for other purposes. In addition, the amount used for dwelling construction (including repair, alteration or improvement) must be more than \$2,500 to come under the restrictions. As previously mentioned, in the case of a Farm Ownership loan, the amortization provisions of the restrictions apply if more than 75 percent of the loan is to be used for dwelling purposes.

July 19, 1950 Controls

Shortly after the outbreak of the Korean war the President requested the HHFA Administrator and other Federal agency heads to restrict credit on Government-aided real estate loans. Accordingly, effective July 19, 1950, the FHA reduced the ratio of FHA-insured mortgage loans to value by 5 percentage points. At the same time the VA issued an order requiring a cash down payment of at least 5 per-

cent of the purchase price or construction cost of houses financed with certain classes of VA-guaranteed loans. In addition, for both FHA and VA loans, any increase in costs after July 1, 1950, had to be included in the cash down payment.

The July 19 controls applied only to Government-aided loans. The subsequent controls, as explained, apply also to conventional loans for new construction and represent a further tightening of Government-aided credit for both new and old construction. Exemption from the subsequent controls does not exempt loans from the July 19 controls if the July 19 controls are applicable by their terms.