

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-69
June 1, 1978

REGULATION H--MEMBERSHIP OF STATE BANKING INSTITUTIONS
IN THE FEDERAL RESERVE SYSTEM

Loans by State Member Banks in
Special Flood-Hazardous Areas

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has amended its Regulation H (Membership of State Banking Institutions in the Federal Reserve System) to conform to new provisions of the National Flood Insurance Program.

The regulatory amendment revokes those provisions that prohibit State member banks from making any loan secured by improved real estate, or a mobile home, in a flood-hazardous area of a community that does not participate in the National Flood Insurance Program.

Instead, in accordance with recent amendments to the Flood Disaster Protection Act of 1973, the Board will require State member banks, as a condition of such loans, to notify the purchaser or lessee of the property whether, in the event of a flood disaster, Federal disaster relief would be available.

The prohibition against making such loans in communities that do participate in the program, unless the property is covered by Federal flood insurance, remains in force.

Enclosed is a copy of the amendment to Regulation H for insertion in your Regulations Binder. Any questions regarding this amendment may be directed to the Bank Supervision and Regulations Department, Consumer Affairs Section, at Ext. 6171 or Ext. 6181. Additional copies of the amendment will be furnished upon request to the Secretary's Office, Ext. 6267.

Sincerely yours,
Robert H. Boykin
First Vice President

Enclosure

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
MEMBERSHIP OF STATE BANKING INSTITUTIONS
IN THE FEDERAL RESERVE SYSTEM

AMENDMENT TO REGULATION H†

Effective April 20, 1978, Section 208.8(e) is amended by revoking Sections 208.8(e)(2), (5), renumbering Section 208.8(e)(3) as Section 208.8(e) (2) and Section 208.8(e)(4) as Section 208.8(e) (3), amending the renumbered Section 208.8(e) (3) to include the provision of notice to borrowers of the availability of Federal disaster relief assistance, and adding Appendix A. Section 208.8 is amended to read as follows:

SECTION 208.8 — BANKING PRACTICES

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(e) Loans by State member banks in special flood-hazardous areas.

(1) Property securing loan must be insured against flood.***

(2) Records of compliance.***

(3) (i) Notice of special flood hazards and availability of Federal disaster relief assistance. Each State member bank shall, as a condition of making, increasing, extending or renewing any loan secured by improved real estate or a mobile home located or to be located in an area that has been identified by the Secretary of Housing and Urban Development as an area having special flood hazards, mail or deliver as soon as feasible but not less than 10 days in advance of closing of the transaction (or not later than the bank's commitment, if any, if the period between commitment and closing is less than 10 days) a written notice to the borrower stating (a) that the property securing the loan is or will be located in an area so identified, or in lieu of such notification a State member bank may obtain satisfactory written assurances from a seller or lessor stating that such seller or lessor has notified the borrower, prior to the execution of any agreement for sale or lease, that the property securing the loan is or will be

located in an area so identified; and (b) whether, in the event of damage to the property caused by flooding in a federally-declared disaster, Federal disaster relief assistance will be available for such property. Each State member bank shall require the borrower, prior to closing, to provide the bank with a written acknowledgment that the property securing the loan is or will be located in an area so identified and that the borrower has received the above-required notice regarding Federal disaster relief assistance.

(ii) Sample notices. A State member bank providing written notice containing the language presented in Appendix A within the time limits prescribed in paragraph (a) of this section will be considered to be in compliance with the notice requirements of paragraph (a) of this section.

APPENDIX A — SAMPLE NOTICES

(1) Notice to Borrower of Special Flood-Hazardous—Notice is hereby given to _____ that the improved real estate or mobile home described in the attached instrument is or will be located in an area designated by the Secretary of the Department of Housing and Urban Development as an area having special flood hazards. This area is delineated on _____'s Flood Insurance Rate Map ("FIRM") or, if the FIRM is unavailable, on the community's Flood Hazard Boundary Map ("FHBM"). This area has a 1 percent chance of being flooded within any given year. The risk of exceeding the 1 percent chance increases with time periods longer than one year. For example, during the life of a 30-year mortgage, a structure located in a special flood-hazardous area has a 26 percent chance of being flooded.

(2) Notice to Borrower about Federal Disaster Relief Assistance—

†For this Regulation to be complete as amended effective April 20, 1978, retain:

- 1) Printed Regulation pamphlet as amended effective March 18, 1969;
- 2) Amendments to Section 208.10(b) and (c) effective December 21, 1973;
- 3) Amendments adding a new Section 208.8 and renumbering succeeding section effective March 2, 1974;
- 4) Amendment effective September 16, 1974;
- ~~5) Amendment effective September 22, 1974;~~
- 6) Amendment effective October 17, 1975;
- 7) Amendment effective October 3, 1977;
- 8) Amendment effective October 31, 1977; and
- 9) This slip sheet.

(a) Notice in participating communities. The improved real estate or mobile home securing your loan is or will be located in a community that is now participating in the National Flood Insurance Program. In the event such property is damaged by flooding in a federally-declared disaster, Federal disaster relief assistance may be available. However, such assistance will be unavailable if your community has been identified as a special flood-hazardous area for one year or longer and is not participating in the National Flood Insurance Program at the time assistance would be approved. This assistance, usually in the form of a loan with a favorable interest rate, may be available for damages incurred in excess of your flood insurance.

(b) Notice in non-participating communities. The improved real estate or mobile home securing your loan is or will be located in a community that is not participating in the National Flood Insurance Program. This means that such property is not eligible for Federal flood insurance. In the event such property is damaged by flooding in a federally-declared disaster, Federal disaster relief assistance will be unavailable if your community has been identified as a special flood-hazardous area for one year or longer. Such assistance may be available only if at the time assistance would be approved your community is participating in the National Flood Insurance Program or has been identified as a special flood-hazardous area for less than one year.