

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7338]
February 7, 1974]

AMENDMENTS TO REGULATION H

Flood Insurance

*To All State Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

The following statement was issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced a regulatory amendment effective March 2, 1974, prohibiting state chartered member banks from lending on improved real estate, or a mobile home, in an identified flood hazard area unless the property is covered by appropriate flood insurance.

The restriction applies also to such property in any community in a designated flood hazard area not participating in the national flood insurance program by July 1, 1975.

In both cases the lending restrictions being added to the Board's Regulation H—dealing with unsafe, unsound or illegal banking practices—are required to implement the Flood Disaster Protection Act of 1973 (P.L. 93-234). The new legislation, signed into law by the President December 31, 1973, increases the limits of coverage. The Act requires Federal agencies regulating financial institutions to direct institutions subject to their rules:

“ . . . not to make, increase, extend, or renew (after March 2, 1974) any loan secured by improved real estate, or mobile home, located or to be located in an area identified by the Secretary (of Housing and Development) as an area having special flood hazards,” where Federal flood insurance is available, unless “ . . . the property is covered for the term of the loan by flood insurance in an amount at least equal to the outstanding principal balance or to the maximum limit of coverage . . . under the Act, whichever is less.”

A similar prohibition affects lending on property in communities located in designated flood hazard areas unless, by July 1, 1975, such communities are participating in the national flood insurance program.

An exception applies to State owned property covered under self-insurance satisfactory to the Secretary of HUD. The Secretary is required to publish lists of states falling within the exemption.

Other Federal regulatory agencies are publishing similar rules restricting lending under the new flood insurance legislation.

Enclosed is a copy of the amendments, effective March 2, 1974, to Regulation H, “Membership of State Banking Institutions in the Federal Reserve System.” Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM

AMENDMENTS TO REGULATION H

1. Effective March 2, 1974, Regulation H (12 CFR 208) will be amended by adding a new section, 208.8, Banking Practices, and renumbering the succeeding sections. The Table of Contents of Part 208 will be changed to read as follows:

SEC.

- 208.1 Definitions
- 208.2 Eligibility Requirements
- 208.3 Insurance of Deposits
- 208.4 Application for Membership
- 208.5 Approval of Application
- 208.6 Privileges and Requirements of Membership
- 208.7 Conditions of Membership
- 208.8 Banking Practices
- 208.9 Establishment or Maintenance of Branches
- 208.10 Publication of Reports of Member Banks and their Affiliates
- 208.11 Voluntary Withdrawal from Federal Reserve System
- 208.12 Board Forms

As an incident to these amendments, sections 208.8, 208.9, 208.10, and 208.11 will be redesignated sections 208.9, 208.10, 208.11, and 208.12 respectively.

2. Effective March 2, 1974, a new section, 208.8, will be added as follows:

SECTION 208.8—BANKING PRACTICES

(a) **Scope.** No State member bank shall engage in practices which are unsafe or unsound or which result in a violation of law, rule, or regulation, or which violate any condition imposed by or agreements entered into with the Board. This section outlines certain of the practices in which State member banks should not engage.

(b) **Waiver.** A State member bank has the right to petition the Board to waive the conditions of section 208.8. A waiver may be granted upon a showing of good cause. The Board in its discretion may choose to limit, among other items, the scope, duration, and timing of the waiver.

(c) [*Reserved.*]

(d) [*Reserved.*]

(e) **Loans by State member banks in identified flood hazard areas.**

(1) *Property securing loan must be insured against flood.* No State member bank shall make, increase, extend or renew 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 and in which flood insurance has been made available under the National Flood Insurance Act of 1968, unless the building or mobile home and any personal property securing such loan is covered for the term of the loan by flood insurance in an amount at least equal to the outstanding principal balance of the loan or to the maximum limit of coverage made available with respect to the particular type of property under the Act, whichever is less. Notwithstanding the foregoing provision, flood insurance shall not be required on any State-owned property that is covered under an adequate policy of self-insurance satisfactory to the Secretary of Housing and Urban Development who shall publish and periodically revise the list of states falling within the exemption provided in this paragraph.

(2) *Prohibition as to loans in nonparticipating communities.* On or after July 1, 1975, no State member bank shall make, increase, extend, or renew 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, unless the community in which such area is situated is then participating in the national flood insurance program.

(3) *Records of compliance.* Each State member bank shall maintain, in connection with all loans secured by improved real estate or a mobile home, sufficient records to indicate the method used by the bank to determine whether or not such loans fall within the provisions of this section 208.8(e).