

A Brief Introduction to the National Flood Insurance Program in the 118th Congress

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Introduction

The [National Flood Insurance Program \(NFIP\)](#) is authorized by the National Flood Insurance Act of 1968 (Title XIII of P.L. 90-448, as amended, [42 U.S.C. §§4001 et seq.](#)) and is the primary source of flood insurance coverage for residential properties in the United States. The [NFIP has more than 4.7 million flood insurance policies providing over \\$1.3 trillion in coverage, with 22,594 communities in 56 states and jurisdictions participating.](#)

The [NFIP has two main policy goals](#): (1) to provide access to primary flood insurance, thereby allowing for the transfer of some of the financial risk from property owners to the federal government, and (2) to mitigate and reduce the nation’s comprehensive flood risk through the development and implementation of [floodplain management](#) standards. A longer-term objective of the NFIP is to reduce federal expenditure on [disaster assistance](#) after floods. The NFIP engages in many “noninsurance” activities in the public interest: it [identifies and maps flood hazards](#), disseminates flood-risk information through [flood maps](#), requires [community land-use and building-code standards](#), contributes to community resilience by providing a mechanism to fund rebuilding after a flood, and offers [grants and incentive programs for household- and community-level investments in flood-risk reduction.](#)

FEMA introduced a new pricing methodology in April 2022, known as [Risk Rating 2.0](#), which represents the biggest change to the way the NFIP calculates premiums since the program began. Under the change, premiums for individual properties are based on their actual flood risk rather than flood zones.

Structure of the NFIP

The NFIP is managed by the [Federal Emergency Management Agency \(FEMA\)](#) through its subcomponent, the [Federal Insurance and Mitigation Administration](#). Communities are not legally required to participate in the program; they participate voluntarily to obtain access to NFIP flood insurance. Communities choosing to participate in the NFIP are [required](#) to adopt land-use and control measures with effective enforcement provisions and to regulate development in the floodplain. FEMA has

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set forth in [federal regulations](#) the minimum standards required for participation in the NFIP; however, these standards have the force of law only if they are adopted and enforced by a state or local government. Legal enforcement of floodplain management standards is the responsibility of participating NFIP communities, which also can elect to [adopt higher standards](#) to mitigate flood risk. The NFIP approaches the goal of reducing comprehensive flood risk primarily by requiring participating communities to collaborate with FEMA to develop and adopt flood maps called [Flood Insurance Rate Maps](#) (FIRMs). Property owners in the mapped [Special Flood Hazard Area](#) (SFHA), defined as an area with a 1% annual chance of flooding, are required to purchase flood insurance as a condition of receiving a federally backed mortgage. This [mandatory purchase requirement](#) is enforced by lenders rather than FEMA. Property owners who do not obtain flood insurance when required may find that they are [not eligible for certain types of disaster assistance after a flood](#).

Financial Standing of the NFIP

The NFIP is funded from (1) premiums, fees, and surcharges paid by NFIP policyholders; (2) [annual appropriations](#) for flood-hazard mapping and risk analysis; (3) [borrowing from the Treasury](#) when the balance of the [National Flood Insurance Fund](#) is insufficient to pay the NFIP's obligations (e.g., insurance claims); and (4) [reinsurance](#) if NFIP losses are sufficiently large. The NFIP was not designed to retain funding to cover claims for truly extreme events; instead, [the statute](#) allows the program to borrow money from the Treasury for such events. For most of the NFIP's history, the program was able to borrow relatively small amounts from the Treasury to pay claims and then repay the loans with interest. However, this changed when Congress [increased the borrowing limit](#) to \$20.775 billion to pay claims in the aftermath of the [2005 hurricane season](#) (particularly Hurricanes Katrina, Rita, and Wilma). Congress [increased the borrowing limit again](#) in 2013, after Hurricane Sandy, to the current limit of [\\$30.425 billion](#).

The [2017 hurricane season](#) was the second-largest claims year in the NFIP's history, with approximately \$10.15 billion paid to date in response to Hurricanes [Harvey](#), [Irma](#), and [Maria](#). At the beginning of the 2017 hurricane season, the NFIP owed \$24.6 billion. On September 22, 2017, the NFIP borrowed the remaining \$5.825 billion from the Treasury to cover claims from Hurricane Harvey, reaching the NFIP's borrowing limit. On October 26, 2017, Congress canceled \$16 billion of NFIP debt in order to pay claims for Hurricanes Harvey, Irma, and Maria. FEMA borrowed another \$6.1 billion on November 9, 2017, bringing the debt back up to [\\$20.525 billion](#). As of October 2023, the NFIP has [\\$9.9 billion of remaining borrowing authority](#). The NFIP transfers a portion of its risk to the private sector through the purchase of [reinsurance](#) and the issuance of [catastrophe bonds](#).

The NFIP's debt is conceptually owed by current and future participants in the NFIP, as the insurance program itself owes the debt to the Treasury and pays for accruing interest on that debt through the premium revenues of policyholders. Since 2005, the NFIP has paid \$2.82 billion in principal repayments and [\\$5.71 billion in interest](#) to service the debt through the premiums collected on insurance policies. The October 2017 cancellation of \$16 billion of NFIP debt represents the first time NFIP debt has been cancelled.

NFIP Reauthorization

Since the end of FY2017, Congress has enacted 26 short-term NFIP reauthorizations. The NFIP is [currently authorized until November 17, 2023](#). The statute for the NFIP does not contain a comprehensive expiration, termination, or sunset provision for the whole of the program. Rather, the NFIP has multiple different legal provisions that generally tie to the expiration of key components of the program. Unless reauthorized or amended by Congress, the following will occur on November 17, 2023: (1) the authority to provide *new* flood insurance contracts will expire; however, insurance contracts entered into before the

expiration would continue until the end of their policy term, and (2) the authority for the NFIP to borrow funds from the Treasury will be [reduced from \\$30.425 billion to \\$1 billion](#).

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