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A Brief Introduction to the National Flood Insurance Program

The National Flood Insurance Program (NFIP) is the primary source of flood insurance coverage for residential properties in the United States. 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 of 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. As a public insurance program, the goals of the NFIP are different from the goals of private-sector insurance companies. It encompasses social goals to provide flood insurance in flood-prone areas to property owners who otherwise would not be able to obtain it and to reduce the government's cost after floods. The NFIP also 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.

Over 22,000 communities in 56 states and jurisdictions participate in the NFIP, with over 4.7 million policies providing almost $1.28 trillion in coverage. The program collects about $4.3 billion in annual premium revenue. Floods are the most common and costly natural disaster in the U.S.

Structure of the NFIP

The NFIP is managed by the Federal Emergency Management Agency (FEMA) through its subcomponent, the Federal Insurance and Mitigation Administration. A core design feature of the NFIP is that communities are not required to participate in the program by any law or regulation, but instead participate voluntarily in order to obtain access to NFIP flood insurance. Communities that choose 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 set forth in federal regulations the minimum standards required for participation in the NFIP; however, these standards have the force of law only because they are adopted and enforced by a state or local government. Legal enforcement of the floodplain management standards is the responsibility of the participating NFIP community, which can elect to adopt higher standards as a means of mitigating flood risk. In addition, FEMA operates a program, called the Community Rating System, to incentivize NFIP communities to adopt more rigorous floodplain management standards.

NFIP flood insurance policies are sold only in participating communities and are offered to both property owners and renters and to residential and nonresidential properties. NFIP policies have relatively low coverage limits, particularly for nonresidential properties or properties in high-cost areas. The maximum coverage for single-family dwellings (which also includes single-family residential units within a 2-4 family building) is $100,000 for contents and up to $250,000 for building coverage. The maximum available coverage limit for other residential buildings is $500,000 for building coverage and $100,000 for contents coverage, and the maximum coverage limit for nonresidential business buildings is $500,000 for building coverage and $500,000 for contents coverage.

Flood Mapping and Mitigation

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). An area of specific focus of the FIRM is the Special Flood Hazard Area (SFHA). The SFHA is defined by FEMA as an area with a 1% or greater risk of flooding every year. FIRMs provide the basis for identifying properties whose owners are required to purchase flood insurance and establishing floodplain management standards that communities must adopt and enforce as part of their participation in the NFIP. There is no consistent, definitive timetable for revising and updating FIRMs for a particular community. Generally, FIRMs may require updating after significant new building development in or near the flood zone, changes to flood-protection systems, or environmental changes in the community. Statutory guidelines set out the procedure for developing new FIRMs for a community. For example, FEMA is required to conduct extensive communication and outreach efforts with the community during the mapping process, which includes several review and comment periods of 30 to 90 days. Communities and individuals also have legal recourse to appeal the FIRM updating process. After a FIRM is finalized and adopted by a community, it can still be revised to correct for errors in map accuracy. To correct these inaccuracies, FEMA allows individuals and communities to request letters amending a FIRM.

FEMA also operates a Flood Mitigation Assistance (FMA) Grant Program that is funded through revenue collected by the NFIP. FMA grants are only available to communities that participate in the NFIP, to reduce or eliminate flood damage and structures insurable under the NFIP, particularly repetitive loss and severe repetitive loss structures. The Infrastructure Investment and Jobs Act appropriated $3.5 billion for the FMA program, with $700 million for each of FY2022 to FY2026.

The Mandatory Purchase Requirement

In a community that participates or has participated in the NFIP, property owners in the mapped SFHA are required to purchase flood insurance as a condition of receiving a federally backed mortgage. Federal agencies, federally regulated lending institutions, and government-sponsored enterprises must require these property owners to purchase flood insurance as a condition of any mortgage that these entities make, guarantee, or purchase. To comply with this mandate, property owners may purchase flood insurance through the NFIP or through a private company, as long as the private flood insurance meets the condition set by statute that it "provides flood insurance coverage which is at least as broad as the coverage" of the NFIP, among other conditions. The mandatory purchase requirement is enforced by the lender, rather than FEMA. Property owners who do not obtain flood insurance when required may find they are not eligible for certain types of disaster assistance after a flood.

Financial Standing of the NFIP

The NFIP is funded from premiums, fees, and surcharges paid by NFIP policyholders; direct annual appropriations for specific costs of the NFIP (currently only for the flood hazard mapping and risk analysis program); and 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). 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 level of NFIP borrowing 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 following Hurricane Sandy to its current limit of $30.425 billion.

The 2017 hurricane season was the second-largest claims year in the NFIP's history—second only to the 2005 hurricane season. 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 authorized borrowing limit of $30.425 billion. On October 26, 2017, Congress cancelled $16 billion of NFIP debt to pay claims for Hurricanes Harvey, Irma, and Maria. FEMA borrowed another $6.1 billion on November 9, 2017, to fund estimated 2017 losses, including those incurred by Hurricanes Harvey, Irma, and Maria, bringing the debt back up to $20.525 billion. The NFIP has not needed to borrow from the Treasury since 2017. As of March 2024, the NFIP has $9.9 billion of remaining borrowing authority, as well as possible reinsurance payments of over $1.9 billion.

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. Under its current authorization, the only means the NFIP has to pay off the debt is through the accrual of premium revenues in excess of outgoing claims, and from payments made out of the reserve fund. For example, since 2005 the NFIP has paid $2.82 billion in principal repayments and $6.17 billion in interest to service the debt through the premiums collected on insurance policies. The cancellation of $16 billion of NFIP debt in October 2017 represents the first time that NFIP debt has been cancelled, although Congress appropriated funds between 1980 and 1985 to repay NFIP debt.

Risk Rating 2.0

FEMA introduced a new pricing methodology, known as Risk Rating 2.0, which represents the biggest change to the way the NFIP calculates flood insurance premiums since the program began in 1968. The new rates went into effect on October 1, 2021, for new NFIP policies and went into effect on April 1, 2022, for existing NFIP policyholders. Under the change, premiums for individual properties are tied to their actual flood risk and flood zones are no longer used in calculating a property's flood insurance premium, in contrast to the legacy rating system in which properties with the same NFIP flood risk were charged the same rates. Under Risk Rating 2.0 the premium is calculated based on the specific features of an individual property. Risk Rating 2.0 incorporates a broader range of flood frequencies and sources than the legacy rating system, including flooding from rivers, storm surge, and heavy rainfall. Flood zones will still be used for floodplain management purposes, and the boundary of the SFHA will still be required for the mandatory purchase requirement.

Reauthorization of the NFIP

Since the end of FY2017, 30 short-term NFIP extensions have been enacted. The NFIP is currently authorized until September 30, 2024. 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 September 30, 2024: (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 of one year; and (2) the authority for NFIP to borrow funds from the Treasury will be reduced from $30.425 billion to $1 billion.

CRS Products About the NFIP

CRS Report R44593, *Introduction to the National Flood Insurance Program (NFIP)*.

CRS Insight IN10784, *National Flood Insurance Program Borrowing Authority*.

CRS Insight IN10835, *What Happens If the National Flood Insurance Program (NFIP) Lapses?*

CRS Insight IN11777, *National Flood Insurance Program Risk Rating 2.0: Frequently Asked Questions*.

CRS Report R45242, *Private Flood Insurance and the National Flood Insurance Program*.

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