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Issues for Reauthorization and Reform of the National Flood Insurance Program

Floods are the most common and costly natural disaster in the United States; however, flood damage is not covered by homeowners insurance, and many flood victims are surprised to discover after a flood that their losses are not covered by insurance. Instead, homeowners and renters must buy a separate flood insurance policy; however, most private insurance companies do not offer flood coverage. Most people who have flood insurance get it from the National Flood Insurance Program (NFIP), which is the primary source of flood insurance coverage for residential properties in the United States. Over 22,000 communities in 56 states and jurisdictions participate in the NFIP, with over 4.7 million policies providing over $1.3 trillion in coverage. The program collects $4.3 billion in annual premium revenue.

The 119th Congress will need to consider a number of issues as they consider legislation for long-term reauthorization and reform of the NFIP. Issues that Congress may consider in the context of reauthorization include (1) NFIP solvency and debt; (2) premium rates and surcharges; (3) affordability of flood insurance; (4) increasing participation in the NFIP; (5) the role of private insurance and barriers to private sector involvement; (6) noninsurance functions of the NFIP such as floodplain mapping and flood mitigation; and (7) future flood risks, including future catastrophic events.

Reauthorization of the NFIP

Since the end of FY2017, Congress has enacted 32 short-term NFIP extensions. The NFIP is currently authorized until March 14, 2025. 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 March 14, 2025: (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.

Structure of the NFIP

The NFIP is different from other disaster assistance in that it is not directly funded by taxpayers. The NFIP was designed so that residents in at-risk areas pay some of the recovery costs of a disaster through federal insurance before the event, with individual policyholders funding at least part of their recovery from flood damage. 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. To this end, FEMA operates a program, 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. 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 coverage limit for nonresidential business buildings is $500,000 for building coverage and $500,000 for contents coverage.

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. 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.

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.

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 Grant Program (FMA) 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 (IIJA) appropriated $3.5 billion for the FMA program, with $700 million for each of FY2022 to FY2026.

Financial Standing of the NFIP

The NFIP is funded from (1) premiums, fees, and surcharges paid by NFIP policyholders; (2) direct annual appropriations for flood mapping; (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. In general, the only ongoing direct appropriations to the NFIP are to pay part of the costs for flood hazard mapping and risk analysis.

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. The NFIP was forced to borrow heavily to pay claims in the aftermath of three catastrophic flood seasons: the 2005 hurricane season (particularly Hurricanes Katrina, Rita, and Wilma), Hurricane Sandy in 2012, and the 2017 hurricane season (Hurricanes Harvey, Irma, and Maria). Congress increased the borrowing limit to $20.775 billion to pay claims in the aftermath of the 2005 hurricane season, and increased the borrowing limit again after Hurricane Sandy, to its current limit of $30.425 billion. The NFIP has not needed to borrow from the Treasury since 2017.

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. Congress canceled $16 billion of NFIP debt in order to pay claims for Hurricanes Harvey, Irma, and Maria. This represents the first time that NFIP debt has been cancelled.

The NFIP debt is currently $20.525 billion, so the NFIP has $9.9 billion of remaining borrowing authority. 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, accruing $1.7 million in interest daily. The NFIP also transfers a portion of its risk to the private sector through the purchase of reinsurance and the issuance of catastrophe bonds.

Risk Rating 2.0 and NFIP Affordability

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 fully into effect on April 1, 2022. 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. Instead, the premium is calculated based on the specific features of an individual property. Risk Rating 2.0 incorporates a range of flood frequencies and sources, including flooding from rivers, storm surge, and heavy rainfall. Flood zones will still be used for floodplain management purposes, and the SFHA boundary is still required for the MPR.

Risk Rating 2.0 is projected to increase premiums for about 66% of policies. If policyholders are currently paying less than the full risk-based rate for their property, their premiums will increase over time until they reach the full-risk rate for their property. GAO estimated that it will take until 2037 for 95% of current policies to reach full-risk premiums. By statute, FEMA is not allowed to increase NFIP premiums more than 18% annually for primary residences and 25% annually for other categories of properties. As full risk-based premiums are phased in, some policyholders could be faced with large price increases because they are currently buying coverage at subsidized rates and/or because new flood risk analysis indicates that they have a higher risk than previously mapped. Reforming the premium structure to reflect full risk-based rates could place the NFIP on a more financially sustainable path, and risk-based price signals could give policyholders a clearer understanding of their true flood risk. However, premium increases raise concerns about affordability. Without Congressional action, FEMA does not have the authority or funding to implement an affordability program.

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