FEMA Review Council Recommendations for the National Flood Insurance Program

August 28, 2026

Executive Order (EO) 14180 established the Federal Emergency Management Agency (FEMA) Review Council (FRC) in January 2025 to evaluate FEMA's future role in federal emergency management. The FRC issued its final report on May 7, 2026, offering 10 recommendations to reorient FEMA's role. This In Focus addresses the recommendations related to the National Flood Insurance Program (NFIP); another CRS report gives an overview of the FRC's other recommendations.

The NFIP Today

Flooding is the most frequent and expensive natural hazard in the United States. The NFIP is the primary source of flood insurance coverage for residential properties in the United States, providing over $1.3 trillion in coverage and collecting about $4.6 billion in revenue from policyholders' premiums, fees, and surcharges. Nationally, over 22,000 communities in 56 states, territories, and jurisdictions participate in the NFIP. Long-term reauthorization of the NFIP is a perennial congressional agenda item: since the end of FY2017, 35 short-term NFIP reauthorizations have been enacted.

FEMA estimates that about 4% of homeowners have flood insurance. Property owners are required to purchase flood insurance if their property is identified as being in a Special Flood Hazard Area, as mapped by FEMA, and is in a community that participates in the NFIP. FEMA can only deny NFIP coverage to properties which have been declared by a state or community to be in violation of floodplain management regulations.

The private sector covers a small, but growing, amount of flood risk. As of May 2026, private companies wrote 643,467 flood insurance policies, compared to the NFIP's 4.55 million policies. For many years, FEMA has expressed the view that both the NFIP and an expanded private market will be needed in order to increase flood insurance coverage and reduce uninsured losses. Increased private coverage could potentially reduce the overall financial risk to the NFIP after major disasters.

A key design feature of the NFIP is that policyholders' payments are intended to cover almost all program expenses, including claims, mapping, floodplain management, and flood mitigation. A relatively small amount ($100-$280 million) is appropriated annually to pay for parts of the costs of flood mapping. Congress has authorized the NFIP to borrow from Treasury when funding is insufficient to pay claims. FEMA has been tasked by Congress with two competing goals: keeping flood insurance affordable and keeping the NFIP program financially solvent. These conflicting objectives have made it challenging to reform the program. Different Administrations and Congresses have placed varied emphases and priorities on affordability or solvency with regard to setting premiums.

Since 2023, FEMA has used a new pricing methodology known as Risk Rating 2.0 to calculate NFIP premiums based on a property's individual flood risk. The U.S. Government Accountability Office (GAO) found that about 66% of premiums increased in the first year. Congress limited the percentage that an individual's flood insurance can be increased annually to 18% for primary residences and 25% for other policies. GAO estimated that it could take until 2037 for 95% of policies to reach full risk-based rates.

FRC Recommendations

Specific FRC recommendations about the NFIP include:

- Continuing to implement Risk Rating 2.0 and work with Congress to address affordability challenges for selected homeowners.
- Reforming the Community Rating System to promote local responsibility for flood risk reduction and align floodplain management standards with updated Flood Insurance Rate Maps (FIRMs).
- Revising Write Your Own (WYO) compensation through ongoing rulemaking to reflect administrative costs, as congressionally directed in the Biggert-Waters Flood Insurance Reform Act of 2012.
- Addressing repetitive loss structures through targeted mitigation planning and accountability measures.
- Exempting the NFIP from the Endangered Species Act (ESA) and rescind all Biological Opinions related to FEMA's implementation of the ESA. (Exemptions from the ESA are normally granted for specific agency actions rather than all agency actions.)
- Shifting certain insurance policies from the NFIP to the private market and evaluate the development of a flood insurance marketplace through a centralized clearinghouse to provide consumers with access to both NFIP and private flood insurance policies.

Transition of NFIP Policies to the Private Market

Shifting policies from the NFIP to the private market represents a significant departure from the current structure, authorities, and intent of the NFIP and would require statutory change. The FRC recommendation calls for a gradual, structured transition of certain NFIP policies to the private market in areas where private capacity exists. The report suggests that this could be accomplished through a voluntary "take-out" program, which would allow FEMA to transfer eligible policies to qualified private insurers under existing statutory authorities. The extent to which this could be achieved depends, at least in part, on private market appetite for NFIP policies.

The report specifically recommended incentivizing the launch of a "take-out" program to transfer NFIP policies to the private sector. This raises the question how such policies would be priced. The private market is not expected to take on policies where the premium is perceived to be inadequate relative to the risk, which is the case for many policies written by the NFIP.

In response to questions about the private sector absorbing NFIP costs and possible pricing at a May 2025 hearing of Senate Committee on Banking, Housing, and Urban Affairs, Mr. Robert Gordon, Senior Vice President: Policy, Research, and International, American Property Casualty Insurance Association, said:

> Mr. Gordon: One of the things you have to keep in mind is the NFIP, it pays no taxes and has no cost of capital, but it underprices its coverage. It's currently $22 billion in debt and that's after $16 billion of debt forgiveness. So, the prices that it charges, there's such a great chasm between that and what the private market would have to charge. [T]he private market just wouldn't be able to do it…. And the NFIP also plays an enormously important role in encouraging community floodplain management, developing flood maps, building codes. That's something the private sector could never replace.... [T]he NFIP with Risk Rating 2.0 has been trying to start to close the gap between their underpricing and actuarial rates. But there's still a very significant delta and prices would have to go up significantly if the private market were to take that on over time and it would take quite a bit of time for the private market to absorb that risk.

The FRC recommendation for a strategic shift to increased private market involvement is presented in the context of the financial instability of the NFIP, with the stated aim of offloading risk from the NFIP, which would ultimately contribute to the NFIP's long-term financial stability and reduce the taxpayer burden. A voluntary take-out program could also exacerbate the financial challenges of the NFIP by allowing private insurers to cover properties in certain locations which they deem to be less risky, leaving the NFIP to cover the most flood-prone properties. This might increase the financial exposure and volatility of the NFIP. For example, the private market may "cherry-pick" (i.e., adversely select against the NFIP) the profitable, lower-risk NFIP policies. Because the NFIP cannot refuse to write a policy based on risk, properties that are considered "undesirable" by private insurers are likely to remain in the NFIP portfolio—private insurers will not compete against the NFIP for policies that are inadequately priced from their perspective. This could leave the NFIP with a higher density of policies that may be paying less than risk-based rates and a higher proportion of high-risk policies. In the long term the NFIP could be left as the insurer of last resort for the highest risk properties, further jeopardizing its financial solvency.

A significant increase in the transfer of private flood insurance policies away from the NFIP (known as "depopulation" of the program) may also undermine the NFIP's ability to generate revenue, reducing the amount of past borrowing that can be repaid or extending the time required to repay the debt. If the number of NFIP policies decreases, it would likely become increasingly difficult for the remaining NFIP policyholders to support the NFIP's functions of reducing flood risk through flood mapping and floodplain management. To the extent that the private flood insurance market grows and policies move from the NFIP to private insurers, FEMA is to no longer collect the Federal Policy Fee (FPF) from those policies and less revenue would be available for floodplain mapping and floodplain management. The income from the FPF is designated to pay for floodplain mapping activities, floodplain management programs, and certain administrative expenses. The FRC did not offer a recommendation on how this decline in revenue could be addressed, or whether these programs should continue. Enforcement of floodplain management standards could also be more challenging within a private flood insurance system, as the current system makes the availability of NFIP insurance in a community contingent on the implementation of floodplain management standards.

Private flood insurance may offer some advantages to consumers over the NFIP, including more flexible flood policies, higher coverage limits, integrated coverage with homeowners insurance, or lower-cost coverage for some consumers. Increasing private insurance may also have some downsides compared to the NFIP. Consumer protections vary in different states, and private coverage would not be guaranteed to be available to all floodplain residents, unlike the NFIP; for example, a private insurer may decline to renew a policy if they determine that risk to that property has increased.

The FRC report recommends that FEMA evaluate the development of a centralized flood insurance marketplace to serve as a clearinghouse to provide consumers with access to both NFIP and qualified private insurance options. The FRC suggests that the marketplace could encourage NFIP depopulation by requiring customers to select a private insurance policy from a marketplace-approved insurer if the premiums is priced at no more than 10% above the full risk-based rate under Risk Rating 2.0. It is not clear how FEMA could require policyholders to leave the NFIP and purchase a private flood insurance policy, nor what would happen if the private company were to drop these policyholders in future. It is also unclear how FEMA or Congress could implement these recommendations if private insurers are unwilling to take many NFIP policies. The FRC acknowledged that legislation would be required to implement NFIP reform.

The public comment period on the FRC report ended on June 8, 2026. A number of comments noted that the report does not make any recommendations about premium rate increases, NFIP funding, changes to NFIP minimum standards, or how to increase the number of homes with flood insurance.

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