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National Flood Insurance Program

The NFIP's mission. The objective of the National Flood Insurance Program is to provide affordable flood insurance to homeowners and businesses via licensed agents and insurance companies. Due to the catastrophic nature of many floods, the private market has often avoided offering coverage to the highest risk areas, or has provided these areas with very expensive coverage.

NFIP

Insurance in Force: \$743.6 billion

Reserves: \$1.1 billion

Statutory Taxpayer Exposure*: \$1.5 billion

Budget Cost FY 2004: Nothing

*Note: Reflects total federal losses in a worst case scenario given current law and current financial commitments

The NFIP was established in 1968 to mitigate increasing taxpayer funded flood relief. Prior to the founding of the NFIP, many people could not buy flood insurance. As a result, the federal government often simply provided disaster assistance after a flood. This direct assistance was costly for taxpayers and did not cover many of the losses incurred.

Structure and Functions

Nuts and bolts. The National Flood Insurance Program is administered by the Mitigation Division of the Federal Emergency Management Agency (FEMA), part of the Department of Homeland Security. The Director of the Mitigation Division, who also acts as the Federal Insurance Administrator, heads the program. The NFIP's guidelines are set by Congress pursuant to 42 U.S.C 50, and it is overseen by the House's Financial Services committee and the Senate's Banking, Housing, and Urban Affairs committee. The NFIP is self-sufficient in its resources and does not receive appropriations from general revenues; however, the program itself must be reauthorized from time to time. It is currently authorized through FY 2008.

The NFIP's functions. The National Flood Insurance Program is meant to provide flood insurance to a wider range of property owners and in greater magnitudes than under free market conditions. The rationale behind the program is that the government is the most effective insurer of a catastrophic and commonplace risk like floods. This is due to its greater ability to pool risk

across the most diverse policy holders and its ability to mandate mitigation efforts through regulatory policies in order to provide preventive measures.

Program administration. The National Flood Insurance Program operates both directly and through private insurers to sell and service NFIP policies. In both cases, the NFIP assumes the insurance risk.

The NFIP Direct Program issues and administers policies directly through the NFIP. It represents less than 5% of policies in force as the NFIP has encouraged the private provision of flood insurance in recent years..

The Write Your Own Program allows insurers to make their flood insurance as consistent as possible, under NFIP guidelines, with their other insurance lines. The company writes and services policies in its own name. It receives an expense allowance for policies written and claims processed, which is withheld from premiums the company pays to NFIP. The NFIP retains underwriting responsibilities while monitoring and regulating the WYO companies.

The NFIP retains all insurance risk. To offset this it receives premium payments, minus expense allowances (about one third of premium payments), from WYO companies. WYO companies also receive approximately 3.3% of the incurred loss when a claim is filed. More than 95 companies participate in this program and policies through the WYO program represent approximately 95% of total NFIP policies.

Insurance eligibility. The Mitigation department of FEMA mandates floodplain management ordinances for communities in the U.S. and its territories.

Communities are defined as political subdivisions which have jurisdiction over building and zoning codes. In exchange, homeowners, renters, and business owners in these communities are eligible to apply for federal flood insurance. NFIP is available to communities in the process of compliance, though only up to

Insurance Levels

The NFIP insures losses up to these ceilings:

Residential Property: \$250,000

Residential Contents: \$100,000

Condominium Property: \$250,000 per unit

Condominium Contents: \$100,000 per building

Rental Contents: \$100,000

Non-residential Property: \$500,000

Non-residential Contents: \$500,000

Coverage typically comes into effect 30 days after its purchase. Coverage above these limits is often available from private insurers, but it is not protected by the NFIP.

Replacement. In cases where a home is less than 80% covered, NFIP will pay the original cash value minus depreciation, as opposed to the full replacement cost that would be paid if it were more than 80% covered.

Premium costs. Premiums are set annually by NFIP in order to adequately price risk and to keep the program from having to borrow to cover its expenses.

The cost for \$100,000 in coverage averages around \$400 per year in premiums, though actual rates vary with geographic location, deductibles, estimated replacement cost, and the flood mitigation efforts of the local community (CRS rating).

emergency program limits which are available for less than half of the regular program limits. Higher premiums will apply to those insured in emergency program communities.

In addition, those wishing to build structures in Special Flood Hazard Areas are required to purchase flood insurance before any federally regulated or insured financial institutions will provide financing for the project.

Qualified circumstances. NFIP defines a flood as a partial or complete inundation of at least two acres or two properties situated on normally dry land. This may be caused by inland or tidal waters, runoff waters, mudflows, or land collapse caused by extraordinary tidal or river erosion. Most claims are paid within 30 to 60 days.

NFIP alternatives. Homeowners insurance typically does not cover floods. Homeowners or business owners can choose to acquire flood insurance from private insurers not affiliated with NFIP.

Consequences of no coverage. The President may declare the flooded area a National Disaster Area, enabling certain types of aid to be offered. In most instances, this assistance will be in the form of loans that will need to be repaid to the government. In the case of a flood, homeowners and business owners not covered by flood insurance can often secure loans from the SBA’s disaster loan program. This program is for rebuilding costs associated with uninsured disaster losses. Of course, the original mortgage or lease on the property is still in place and must still be paid on the original terms. In addition, to qualify for these disaster assistance loans, the property owner must carry flood insurance going forward.

Finances

Overall size. The NFIP currently insures in excess of \$743.6 billion in assets. [See Table 1.](#) This covers more than 4.6 million policies for homes, business, and other non-residential property owners. Each year the NFIP collects premiums, currently around \$2 billion per annum. NFIP also pays out claims to flood victims. In 2004 it paid out \$890 million in claims to 30,667 policy holders. The most claims were paid out in 2001, when \$1.4 billion in claims were paid to 51,655

Table 1: Insured Policies

Fiscal Years	2002 Act.	2003 Act.	2004 Act.
Coverage			
Insured Coverage <i>in millions</i>	\$ 643,588	\$ 681,048	\$ 743,606
Policies in force	4,495,105	4,541,125	4,618,075
Premiums			
Premiums Collected <i>in millions</i>	\$ 1,777	\$ 1,869	\$ 2,000
Claims			
Claims Paid <i>in millions</i>	\$ 302	\$ 838	\$ 890
Number of claims paid	19,283	39,862	30,667

Source: FEMA Policy and Claim Statistics

policy holders.

Statutory taxpayer exposure. In years of high losses, when claims are larger than reserves, the NFIP has the authority to borrow from the Treasury. The NFIP may borrow up to \$1.5 billion from the Treasury. (The President is expected to sign an emergency bill shortly that would raise this limit to \$3.5 billion.) This borrowing authority is the entire statutory taxpayer exposure to this program. However, extreme losses, such as caused by Hurricane Katrina, could lead to a taxpayer rescue if legislators thought it prudent.

Any funds borrowed from the Treasury to cover catastrophic losses are paid back with interest. Since 1990, NFIP has exercised its borrowing authority with the Treasury four times. In the latest instance, CY 2004, catastrophic losses from a destructive hurricane season caused more than 59,000 claims worth over \$1.6 billion. As a result, NFIP borrowed \$200 million from the Treasury. (Tables 1 and 2 reflect fiscal years and do not illustrate the complete impact from 2004 hurricanes which hit in August and September.)

NFIP budgeting. The NFIP is not funded by the taxpayers. It is fully funded through insurance premiums paid by policyholders. [See Table 2.](#)

Table 2: Budget Costs

Fiscal Years	NFIP	
	2004 Act.	2005 Est.
Costs in millions		
Insurance Underwriting	\$ 580	\$ 618
Losses and Adjustments	\$ 1,485	\$ 813
Insurance and Mitigation Program	\$ 88	\$ 93
	\$ 2,153	\$ 1,524
Revenues in millions		
Premiums, Fees, and Other Collections	\$ 1,892	\$ 2,069
Account Transfers (to Flood Mitigation)	\$ -20	\$ -20
Other	\$ 0	\$ -6
	\$ 1,872	\$ 2,043
Balance in millions		
Balance from previous year	\$ 1,356	\$ 1,078
Total Costs	\$ -2,153	\$ -1,524
Total Revenues	\$ 1,872	\$ 2,043
Other funds available	\$ 3	\$ 0
Balance carried forward	\$ 1,078	\$ 1,597

Source: President's FY2006 Budget Appendix

Current Issues

Proposed legislation. Current legislation in Congress concerning the NFIP centers on several issues. H.R. 804 and S. 1386 would amend laws so that payments from NFIP would not be considered income for tax and other purposes. H.R. 103 would provide flood insurance rate cuts to low income families on low cost properties in Special Flood Hazard Areas.

In addition, flood map modernization has been a chief concern of FEMA, as many flood maps have not been updated in over a decade. Flood mapping affects premiums, insurance availability, and mitigation efforts. As a result, Congress has passed a modernization of FEMA flood mapping.

Recent hurricanes. [Editor's note: this summary does not yet reflect the effects of Hurricane Katrina.] The 2004 hurricane season raised concerns among many lawmakers that an increase in storm frequencies could jeopardize the self-sufficiency of NFIP or cause it to significantly increase premiums. CY 2004 had the highest number of claims on record for the program, more than \$1.6 billion. NFIP was forced to borrow \$200 million from the Treasury in order to pay out these claims. Another year of severe flood losses could force program administrators to review premium and coverage levels.

Sources

NFIP: Program descriptions via <http://www.fema.gov/nfip> and <http://www.floodsmart.gov>

U.S. Code: Full Text of 42 U.S.C. 50; available via <http://uscode.house.gov>

OMB: President's FY2006 Budget; available via <http://www.whitehouse.gov/omb>