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INSIGHT

National Flood Insurance Program Borrowing Authority

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This Insight evaluates the National Flood Insurance Program (NFIP) borrowing authority to receive loans from the U.S. Department of the Treasury, particularly in the context of major floods, and discusses the current financial situation of the NFIP as it begins to pay claims from Hurricanes Harvey, Irma, and Maria. On September 22, 2017, FEMA borrowed $5.285 billion from the Treasury, reaching the NFIP's authorized borrowing limit of $30.425 billion.

NFIP Funding

Funding for the NFIP is primarily maintained in an authorized account called the National Flood Insurance Fund (NFIF). Generally, the NFIP has been funded from receipts from the premiums of flood insurance policies, including fees and surcharges; direct annual appropriations for specific costs of the NFIP (currently only flood mapping); and borrowing from the Treasury when the balance of the NFIF has been insufficient to pay the NFIP's obligations (e.g. insurance claims).

NFIP Borrowing Authority

The NFIP was not designed to retain funding to cover claims for truly extreme events; instead, the National Flood Insurance Act of 1968 allows the program to borrow money from the Treasury for such events. For most of the NFIP's history, the program has generally been able to cover its costs, borrowing relatively small amounts from the Treasury to pay claims, and then repaying the loans with interest. **Table 1** and **Table 2** show NFIP borrowing, repayments, and debt from 1981 to 2017. Comparable figures are not available before 1980. When the NFIP was first established, the borrowing limit was $250 million. In 1973, the borrowing limit was increased to $500 million, or $1 billion with the approval of the President. The borrowing limit was increased to $1.5 billion in 1996; however, borrowing at that level was not

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required prior to 2005. The largest debt was $917 million in 1997, which was steadily reduced to zero by the end of FY2003. However, the NFIP was forced to increase the level of borrowing to pay claims in the aftermath of the 2005 hurricane season (particularly Hurricanes Katrina, Rita, and Wilma). Congress increased the borrowing limit to $18.5 billion in November 2005, and further increased the borrowing limit to $20.775 billion in March 2006. In July 2010, the borrowing limit was decreased to $20.725 billion. In 2013, following Hurricane Sandy, Congress increased the borrowing limit to the current $30.425 billion. The Biggert-Waters Flood Insurance Reform Act of 2012 established a reserve fund to cover future expenses, especially those from catastrophic disasters. Since the 2005 hurricane season, the NFIP has made six principal repayments totaling $2.8 billion and has paid $3.4 billion in interest. The program is currently paying nearly $400 million annually in interest. In January 2017, the NFIP borrowed $1.6 billion due to losses in 2016 (the Louisiana floods and Hurricane Matthew) and anticipated programmatic activities, including debt repayments.

Table 1. NFIP Borrowing FY1980 to FY1998

(Nominal dollars)

Fiscal Year	Amount Borrowed	Amount Repaid	Cumulative Debt
1980	917,406,008	0	917,406,008
1981	164,614,526	624,970,099	457,050,435
1982	13,915,000	470,965,435	0
1983	50,000,000	0	50,000,000
1984	200,000,000	36,879,123	213,120,877
1985	0	213,120,877	0
1986	0	0	0
1987	0	0	0
1988	0	0	0
1989	0	0	0
1990	0	0	0
1991	0	0	0
1992	0	0	0
1993	0	0	0
1994	100,000,000	100,000,000	0
1995	265,000,000	265,000,000	0
1996	423,600,000	62,000,000	626,600,000
1997	530,000,000	239,600,000	917,000,000
1998	0	395,000,000	522,000,000

Source: CRS analysis of data provided by FEMA Congressional Affairs, September 18, 2017.

Table 2. NFIP Borrowing FY1999 to FY2017

(Nominal dollars)

Fiscal Year	Amount Borrowed	Amount Repaid	Cumulative Debt
1999	400,000,000	381,000,000	541,000,000

Fiscal Year	Amount Borrowed	Amount Repaid	Cumulative Debt
2000	345,000,000	541,000,000	600,000,000
2001	600,000,000	345,000,000	600,000,000
2002	50,000,000	640,000,000	10,000,000
2003	0	10,000,000	0
2004	0	0	0
2005	300,000,000	75,000,000	225,000,000
2006	16,600,000,000	0	16,885,000,000
2007	650,000,000	0	17,735,000,000
2008	50,000,000	225,000,000	17,360,000,000
2009	1,987,988,421	347,988,421	19,000,000,000
2010	0	500,000,000	18,500,000,000
2011	0	750,000,000	17,750,000,000
2012	0	0	17,750,000,000
2013	6,250,000,000	0	24,000,000,000
2014	0	1,000,000,000	23,000,000,000
2015	0	0	23,000,000,000
2016	0	0	23,000,000,000
2017	7,425,000,000	0	30,425,000,000

Source: CRS analysis of data provided by FEMA Congressional Affairs, September 22, 2017. Figures for 2017 do not include any borrowing which may be needed to cover claims for Hurricane Maria or additional claims for Hurricanes Harvey and Irma.

Hurricanes Harvey, Irma, and Maria

On September 22, 2015, FEMA borrowed the remaining $5.825 billion from the Treasury, so the NFIP now owes $30.425 billion to the U.S. Treasury. The NFIP has $6.796 billion in available funds to pay claims ($6.090 billion in the NFIF and $911 million in the reserve fund, minus $205 million for the September debt interest payment). As of September 22, $1.021 billion has been approved in response to Hurricane Harvey and $64 million has been approved in response to Hurricane Irma. FEMA will also have to pay significant claims for Hurricane Maria.

The funds currently available to the NFIP do not include additional resources that a recent reinsurance contract will provide. FEMA paid a $150 million premium for the reinsurance contract, which is structured to pay 26% of the losses between $4 billion and $8 billion arising from a single flooding event. FEMA estimates that flood claims for Hurricane Harvey will be between $9 billion and $12 billion, and therefore triggering the full $1.042 billion reinsurance payment. Once FEMA has used the remaining funds and the reinsurance payment, all it would have available to pay claims would be the income from NFIP policyholder premiums, fees, and surcharges.

Key provisions of the NFIP were extended from September 30, 2017, through December 8, 2017 (Section 130 of P.L. 115-56). However, this extension did not increase the NFIP's borrowing limit or provide additional funds to the NFIP. Given the severity of Hurricanes Harvey, Irma, and Maria, the remaining funds may not be sufficient to pay all claims. In this case Congress may consider increasing the borrowing limit, as was done most recently following Hurricane Sandy.