National Flood Insurance Program

Why Area Is High Risk

The National Flood Insurance Program (NFIP) is a key component of the federal government's efforts to limit the damage and financial effect of floods. However, it likely will not generate sufficient revenues to repay the billions of dollars borrowed from the Department of the Treasury (Treasury) to cover claims from the 2005 and 2012 hurricanes or potential claims related to future catastrophic losses. This lack of sufficient revenue highlights what have been structural weaknesses in how the program is funded. Since the program offers rates that do not fully reflect the risk of flooding, NFIP's overall rate-setting structure was not designed to be actuarially sound in the aggregate, nor was it intended to generate sufficient funds to fully cover all losses.

Instead, Congress authorized the Federal Emergency Management Agency (FEMA)—the agency within the Department of Homeland Security (DHS) responsible for managing NFIP—to borrow from Treasury, within certain limits, when needed. Until the 2005 hurricanes, FEMA had used its authority to borrow intermittently and was able to repay the loans. As of March 2016, FEMA owed Treasury $23 billion, up from $20 billion as of November 2012. FEMA made a $1 billion principal repayment at the end of December 2014—its first such payment since 2010.

The Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act) contained provisions to help strengthen the financial solvency of the program, including phasing out almost all discounted insurance premiums (for example, subsidized premiums). However, the extent to which its changes would have reduced NFIP's financial exposure is unclear. In July 2013, we reported that FEMA was starting to implement some of the required changes. However, on March 21, 2014, the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) was enacted. HFIAA reinstated certain premium subsidies and slowed down certain premium rate increases that had been included in the Biggert-Waters Act. Aspects of HFIAA were intended to address affordability concerns for certain property owners, but may also increase NFIP's long-term financial burden on taxpayers. Further, an outdated policy and claims management system has also placed the program at risk. As a result of its substantial financial exposure and management and operations challenges, the program has been on our High-Risk List since 2006.