FEMA

NATIONAL FLOOD INSURANCE PROGRAM

The Watermark

FEDERAL INSURANCE & MITIGATION ADMINISTRATION

Fiscal Year 2019, Second Quarter
Volume 6

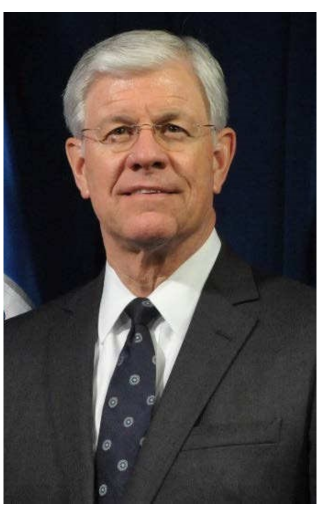
A Message from the Deputy Associate Administrator for Insurance and Mitigation and Chief Executive of the National Flood Insurance Program

On April 1, 1979, President Jimmy Carter created FEMA by Executive Order 12127. In the 40 years since – our Agency's dedicated staff have been called upon to support the federal response in over 3,800 disasters. That is an amazing testament to FEMA's support of our nation in times of greatest need.

As FEMA enters its 41st year and the National Flood Insurance Program (NFIP) continues in its 51st, our moonshot of closing the insurance gap and increasing our investments in mitigation continue to be paramount to building a culture of preparedness across our nation. Because our moonshots are aspirational, they are more complex to execute and socialize. This is not unusual when making generational changes that will be felt for years to come. We need deliberate and methodical planning and coordination at all levels to successfully identify and execute actions that measurably increases resilience in our homes, communities, states and Tribal nations.

The NFIP's resilience is also dependent upon creating a sound financial framework. Reinsurance is a key piece to this primary objective. It benefits policyholders and taxpayers and expands the role of the private markets in managing U.S. flood risk. The NFIP continues to build upon this belief. On April 16, 2019, FEMA entered into a three-year reinsurance agreement, transferring $300 million of the NFIP's financial risk to capital markets investors. Combined with the August 2018 capital market and January 2019 traditional reinsurance placements, ahead of the 2019 hurricane season, FEMA has transferred a total of $2.12 billion of the NFIP's flood risk to the private sector. Three years ago, policyholders and taxpayers assumed all of this risk. But while this brings us a bit closer to our intent, we are still a long way from achieving a sound financial framework within the NFIP. The program currently holds $20.525 billion in unrepayable debt. To service this debt, over $400 million is paid annually for interest out of the premium collected by policyholders. That amounts to over $1 million dollars each day. Ultimately, we're looking to manage the financial well-being of the flood insurance program to a **1 in 20-year event**….And we're building the tools to do it. But more needs to be done.

While broader reforms and long-term reauthorization is ultimately in Congress' hands, I can assure you that we continue to do everything we can, to make sure that Congress understands the issues we face. And we continue build upon our movement to close the insurance gap and move mitigation forward. So, as we approach another hurricane season, let's keep pressing forward taking action where there is inaction and refreshing our points of view in new, collaborative and innovative ways. Ultimately, ask yourself: which story do you want the next generation to hear? One about a community's disaster suffering and long road to recovery? Or a story about a how a community withstood an unprecedented storm because of its bold actions to mitigate and insure against its risk.



Sincerely,

David I. Maurstad
Deputy Associate Administrator for
Insurance and Mitigation

NFIP KEY FIGURES

$1.3 trillion
Insurance in Force

Over $40 billion
Probable Maximum Annual Loss (PML)

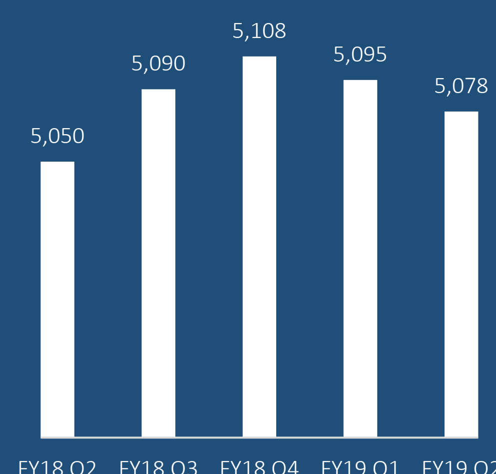
22,374
Participating Communities

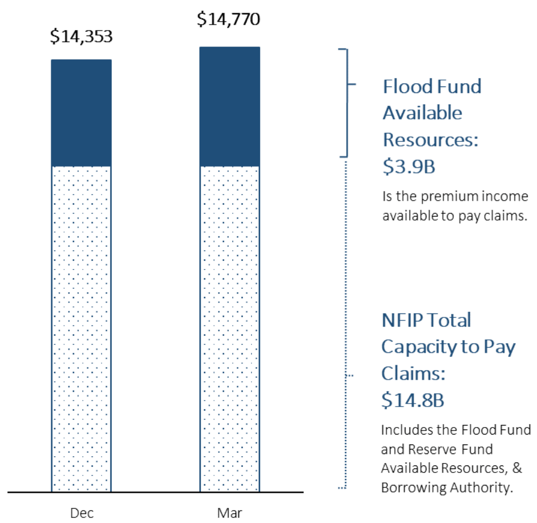
$703
Average Annual Premium
(Incl. Premium & Federal Policy Fee)

$20.5 billion
Outstanding Debt with Treasury

$4.4 billion
Interest Paid Since Hurricane Katrina

Policies in Force
(in thousands)





NFIP CURRENT AVAILABLE RESOURCES

Available Resources is representative of a private-sector "Balance Sheet," or a snapshot of the NFIP's finances, including any prior period carryover for the given period.

Available Resource (*$ in Thousands*)	Dec 31, 2018	**Mar 31, 2019**
Flood Fund Balance	5,265,288	**5,235,981**
Unpaid Obligations	(827,447)	**(666,120)**
Unpaid Loss & Loss Adjustment (Claims)	(849,702)	**(552,110)**
Mandatory Sequestration	(93,434)	**(93,434)**
Flood Fund Available Resources	3,494,705	**3,924,317**
Reserve Fund Balance	206,686	**64,021**
Net Investments	905,783	**1,026,256**
Outstanding Obligations	(154,627)	**(144,326)**
Reserve Fund Available Resources	957,843	**945,951**
Remaining Borrowing Authority	9,900,000	**9,900,000**
NFIP Total Capacity to Pay Claims *	14,352,548	**14,770,268**

* FEMA's reinsurance placements augment the NFIP's Available Resources. After losses for a single event exceed $4B, the NFIP may collect up to $1.82B, meaning the Available Resources would be $16.59B.

STATEMENT OF OPERATIONS

($ in Thousands)

NATIONAL FLOOD INSURANCE FUND

REVENUE	FY 2018	**FY 2019 Q2**	FY 2019 YTD
Premium	3,513,334	**729,157**	1,379,128
Reinsurance	1,042,000	**0**	0
Federal Policy Fee	188,162	**41,246**	82,942
Other Revenue	19,677	**3,616**	5,584
Total Flood Fund Revenue	4,763,174	**774,018**	1,467,653

EXPENSES	FY 2018	**FY 2019 Q2**	FY 2019 YTD
Total Loss & Loss Adjustment (Claims)	9,207,241	**62,344**	1,110,010
Unpaid Loss & Loss Adjustment (Claims)*		**(297,592)**	552,110
Commissions	55,472	**10,122**	23,835
WriteYourOwn (WYO) Expense Allowance	953,462	**230,962**	450,277
Interest Paid on Debt	367,642	**197,561**	203,248
Floodplain Management & Mapping Activities	225,728	**35,483**	53,974
Flood Related Grant Activities	104,486	**5,858**	9,023
Other Expenses	493,875	**92,491**	241,840
Total Flood Fund Expenses	11,407,907	**337,228**	2,644,317
FLOOD FUND NET INCOME (LOSS)**	(6,644,733)	**436,790**	(1,176,664)

NATIONAL FLOOD INSURANCE RESERVE FUND

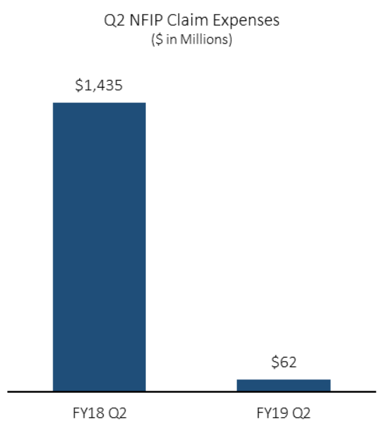
REVENUE	FY 2018	**FY 2019 Q2**	FY 2019 YTD
Assessment	496,820	**100,524**	234,458
Surcharge	382,707	**66,924**	169,119
Premium Redemption & Interest	(892)	**1,136**	5,755
Total Reserve Fund Revenue	878,635	**168,583**	409,332

EXPENSES	FY 2018	**FY 2019 Q2**	FY 2019 YTD
Total Loss & Loss Adjustment (Claims)	495,979	**0**	0
Reinsurance	423,511	**185,880**	185,880
Total Reserve Fund Expenses	919,490	**185,880**	185,880
RESERVE FUND NET INCOME (LOSS)	(40,855)	**(17,297)**	223,452

* In FY 2019, a new Federal Accounting Standard, Statement of Federal Financial Accounting Standards (SFFAS) 51 was issued that made changes to how claims are reported. SFFAS 51 gives guidance that claims must be reported at the time of occurrence. Unpaid Claims in this Q2 *Watermark* report show claims pursuant to SFFAS 51 and have been separated from Total Loss & Loss Adjustment. Unpaid claims include projections of claims reported, and projections of claims Incurred But Not Reported (IBNR), which is an estimate of claims not yet reported to insurance companies.

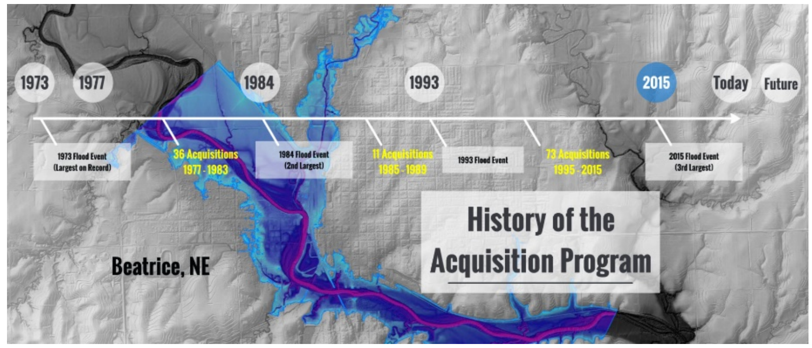
** The combination of Total Revenue and Total Expenses contribute to the Net Income or Net Losses for the NFIP. Because of the NFIP's current structure of premium discounts, interest expenses on debt, and loss concentrations, Net Losses are anticipated.

The NFIP's Statement of Operations is representative of an "Income Statement" usually seen in private-sector organizations. The current report is for the period ending FY 19 Quarter 2 or March 31, 2019.



Beatrice, Nebraska: Successful Disaster Mitigation

Beatrice is a city of approximately 12,500 people in southeastern Nebraska and, like many Midwestern cities, built along a major river. The Big Blue River has been a source of flood risk since the city was founded. In the fall of 1973, the city was hit by the largest flood on record. The final crest of this flood event was 33 feet, 17 feet above flood stage, and resulted in the flooding of several city blocks as well as the bridge that connects the east and west side of the community. The city was affected by flooding again in 1984, 1993 and again in 2015. The city's response has been to approach recovery through implementing a long-term hazard mitigation plan that included the acquisition of flood-prone residential and commercial properties and to convert the land to open space.



Over the years, the properties have been reclaimed as parks, open space, ball fields, and other outdoor structures. Now when the river exceeds flood stage, lives, homes and businesses are no longer at risk. Between 1973 and 2015, a total of 120 property acquisitions were made, at a cumulative total equated to $4.9 million invested.   Through [depth-damage function modeling](), the avoided losses were quantified at $12.9 million, reflecting an $8 million net savings. In other words, a 263% return on investment solely based on the avoided losses from the 2015 event. With the recent 2019 Midwest Floods, another $5 million were avoided in losses due to the mitigation efforts in Beatrice. Beatrice is often cited as a model community for its work on acquisitions.

In the aftermath of the 2019 Midwest Floods, experienced by Nebraska and other surrounding states, the effectiveness of these and other mitigation efforts are a clearly a necessity.

2018 Annual Report of the Office of Flood Insurance Advocate (OFIA)

In March of this year, FEMA announced the release of the 2018 Annual Report of the Office of the Flood Insurance Advocate (OFIA). The report identifies trends affecting policyholders and property owners and includes recommendations to address those issues, in support of ongoing improvements to the National Flood Insurance Program (NFIP). The goal of the report is to increase transparency and support the transformation of the NFIP that is already underway by the Federal Insurance and Mitigation Administration (FIMA). The OFIA's mission is to advocate for the fair treatment of policyholder and property owners by providing education and guidance on all aspects of the NFIP, identifying trends affecting the public, and making recommendations for programs improvements to FEMA leadership. All these activities are focused on reducing program complexity and focused on improving the overall NFIP customer experience.

The OFIA identified the following four issues in the 2018 Annual Report:

- Confusion Regarding Premium Increases;
- Confusion Regarding Condominium Coverage;
- Claim Impacts When Assuming a Non-Primary Residence; and,
- Lack of Refunds for Prior Policy Terms After a Letter of Map Amendment (LOMA) is Issued.

The OFIA has also been tracking the progress made towards the implementation of recommendations from our prior annual reports in 2015 and 2016. In doing so, we have learned that the FIMA program offices have made progress on nearly every recommendation. In fact, 45 percent of the recommendations published in these two annual reports have been fully implemented. We have captured the progresses in a recently published report, *Progress Report on the Implementation of the OFIA Annual Report Recommendations*.

To read this year's Annual Report and Annual Report Progress Report in full, visit our website at [www.fema.gov/Flood-insurance-advocate]().