



FEMA





A Message from the Acting Associate Administrator for Resilience

The beginning of December brought an end to the 2022 Atlantic hurricane season, yet, the ongoing recovery efforts from the season's intense impacts confirm that the climate crisis is upon us.

In July, Kentucky experienced disastrous flooding after a series of tornadoes hit. Then, in mid-September, Typhoon Merbok wrought historic destruction along the Alaskan coastline. Days later, two Category 4 hurricanes – Fiona and Ian – made landfall in Puerto Rico and along the East Coast. These hurricanes were among the most catastrophic events recently encountered in the United

States, causing widespread damage and leaving communities struggling to recover from the devastation left in their wakes.

While an overall total damage assessment will come later, Ian alone is setting records. By late December, the National Flood Insurance Program (NFIP) paid over \$1.5 billion to policyholders on the road to recovery. Of course, there is also the untold human suffering that these storms have caused, which can't be captured by numbers, but which FEMA will remain committed to addressing for as long as it takes.

As we reimagine how to better prepare for the evolving climate crisis, an important next step will be ensuring the NFIP is anchored by a sound financial framework. A solid financial footing is crucial if we are to meet our commitment to provide policyholders an insurance program that is resilient before, during, and after flooding events such as Ian and Fiona. The program's \$20.5 billion debt to U.S. Treasury remains a troublesome, high risk to solvency – a situation compounded by steadily increasing interest rates that, if unfettered, will constrain the NFIP's ability to meet the needs of survivors.

To that end, in the new year, our team looks forward to reengaging with Congress on the urgency of passing a 10-year reauthorization of the NFIP. Our focus will be on reforms that we believe will help modernize and secure the NFIP for generations to come. These recommended reforms address the areas of affordability, debt cancellation, annual equalization appropriation, flood risk disclosure, and excessive-loss properties.

For more context, here's a snapshot of the NFIP's finances as of September 30, 2022:

- *\$18.1 billion to pay claims and other obligations -*
 - *\$5.2 billion in the National Flood Insurance Fund*
 - *\$3 billion in the National Flood Insurance Reserve Fund*
 - *\$9.9 billion in available borrowing authority.*

Additionally, the NFIP maintains \$2.48 billion in reinsurance coverage (losses ranging from \$4 billion to \$10 billion for named storms).

The NFIP's current financial picture is solid, but major reforms are needed now to strengthen the program. By doing so, we will ensure more Americans can recover quickly from extreme weather events, and more communities are able to build resilience by closing the insurance gap. This hurricane season illustrated in stark terms that nature is not waiting for us to act. The fiscal year 2023 omnibus extends the NFIP's current authorization to September 30, 2023. FEMA is ready to work with Congress when called upon to strengthen the NFIP and support disaster survivors.

NATIONAL FLOOD INSURANCE PROGRAM KEY FIGURES

\$1.28 trillion
Insurance in Force

Over \$45 billion
Probable Maximum Annual Loss (PML)

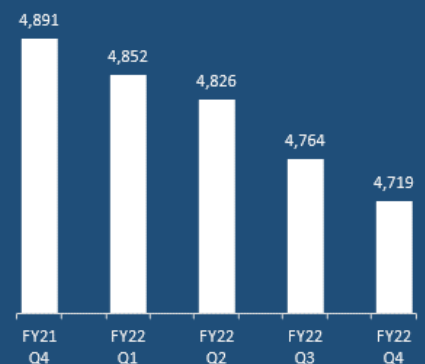
22,594
Participating Communities

\$935
Average Annual Premium
(Includes Premium and Federal Policy Fee)

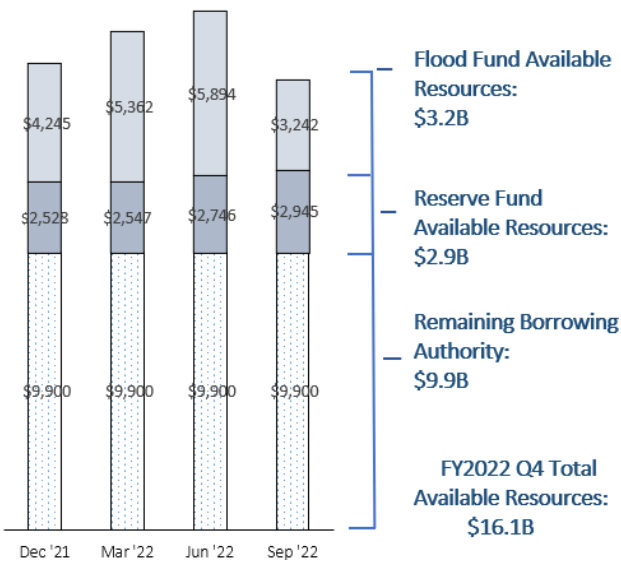
\$20.5 billion
Outstanding Debt with Treasury

\$5.71 billion
Interest Paid to Treasury Since Hurricane Katrina

Policies in Force (in thousands)



\$16,673 \$17,809 \$18,540 \$16,087



NFIP AVAILABLE RESOURCES AS OF 09/30/2022

The NFIP's Available Resources provides information like a "Balance Sheet" used in the private sector. It is a snapshot of the program's finances, including any prior period carryover for the given period.

Available Resource (\$ in Thousands)	Jun 30, 2022	Sept 30, 2022
Flood Fund Available Resources		
Flood Fund Balance	7,077,574	7,458,097
Unpaid Obligations	(864,556)	2,492,673
Unpaid Loss & Loss Adjustment (Claims)	(244,722)	(6,634,107)
Mandatory Sequestration	(74,499)	(74,499)
Flood Fund Available Resources	5,893,796	3,242,164
Reserve Fund Available Resources		
Reserve Fund Balance	740,560	840,764
Net Investments	2,415,671	2,421,560
Outstanding Obligations	(410,271)	(317,506)
Reserve Fund Available Resources	2,745,960	2,944,818
Remaining Borrowing Authority	9,900,000	9,900,000
NFIP Total Capacity to Pay Claims *	18,539,756	16,086,983

* FEMA's reinsurance placements augment the NFIP's Available Resources. After qualifying losses for a single event exceed \$4 billion, the NFIP may collect up to \$2.48 billion should the event reach \$10 billion in losses.

STATEMENT OF OPERATIONS

(\$ in Thousands)

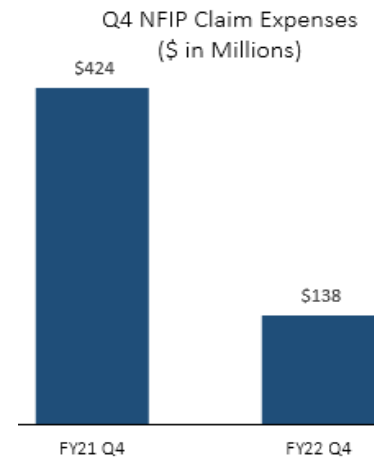
NATIONAL FLOOD INSURANCE FUND

REVENUE	FY 2021	FY 2022 Q4	FY 2022
Premium	3,521,288	863,100	3,244,810
Reinsurance	0	0	0
Federal Policy Fee	187,760	57,192	193,483
Other Revenue	13,693	7,303	15,870
Total Flood Fund Revenue	3,722,741	927,595	3,454,163
EXPENSES	FY 2021	FY 2022 Q4	FY 2022
Total Loss & Loss Adjustment (Claims)	1,369,003	138,317	1,602,835
Incurred But Not Reported Claims	525,545	6,433,141	5,400,772
Commissions*	59,330	16,460	56,461
WriteYourOwn (WYO) Expense Allowance*	938,959	186,610	837,669
Interest on Debt	356,813	78,976	300,437
Floodplain Management & Mapping Activities	223,427	60,520	177,793
Flood Related Grant Activities	239,305	130,267	181,063
Other Expenses	246,315	(3,402,876)	(3,227,427)
Total Flood Fund Expenses	3,958,697	3,641,415	5,329,603
FLOOD FUND NET INCOME (LOSS)**	(235,956)	(2,713,820)	(1,875,440)

The NFIP's Statement of Operations provides information like an "Income Statement" used in the private sector. The current report is for the period ending on September 30, 2022, Fiscal Year (FY) 2022 Quarter 4.

NATIONAL FLOOD INSURANCE RESERVE FUND

REVENUE	FY 2021	FY 2022 Q4	FY 2022
Assessment	613,150	171,162	603,212
Surcharge	307,965	91,090	311,234
Return on Investment	77,332	2,360	13,283
Total Reserve Fund Revenue	998,447	264,612	927,729
EXPENSES	FY 2021	FY 2022 Q4	FY 2022
Total Loss & Loss Adjustment (Claims)	0	0	0
Reinsurance-Traditional	198,193	42,979	177,899
Reinsurance-ILS	193,523	48,355	187,850
Obligations and Other Expenses	51,990	(18,544)	64,145
Total Reserve Fund Expenses	443,706	72,790	429,894
RESERVE FUND NET INCOME (LOSS)	554,741	191,822	497,835



* The FY 2022 Commissions and Taxes of Agents (Commissions and WYO Expense Allowance) include \$17,387 of FY 2021 expenses resulting from the typical two-month lag time between when financial data is received and when it is reported on the financial statements.

** Because of the NFIP's current structure of premium discounts, interest expenses on debt, and loss concentrations, net losses are anticipated.

Rising Interest Expenses

On September 30, 2022, the NFIP made a semi-annual interest payment of \$300 million to the U.S. Treasury. With this payment, the NFIP has now paid over \$5.7 billion in interest since Hurricane Katrina hit the United States in 2005.

The NFIP is projected to pay an additional \$5.3 billion of interest over the next 10 years, for a total of \$9.3 billion by 2027. To put this figure in perspective, interest expenses paid could more than cover the 130,000 claims paid to survivors of Hurricane Sandy.

The NFIP's interest expense is a function of debt principal and the prevailing interest rates. Prior to Hurricane Katrina, the NFIP paid back all debt along with corresponding interest. However, catastrophic losses in 2005 led to more than \$16 billion in debt that the NFIP is not structured to pay off. Given the high interest rates at the time, the NFIP paid close to \$700 million in annual interest for three years. Interest rates dropped after 2008 and the NFIP paid less in interest despite growing debt resulting from Hurricane Sandy and later storms.

The NFIP exhausted its borrowing authority with the U.S. Treasury following the historic 2017 hurricane season, before receiving \$16 billion of debt cancellation. The program now carries \$20.525 billion of debt and pays nearly \$1 million in interest daily.

As interest rates increase, payments on this debt are projected to grow as well. FEMA has mitigated against some of the risk of rising interest rates by locking in more than half of its debt portfolio in long-term notes. However, the agency will need to refinance some of the NFIP debt in March 2023 at higher rates.

The NFIP is not built to handle this level of debt and its interest payments. FEMA will be unable to pay the debt as interest continues to consume revenue that would otherwise serve to grow the NFIP's ability to pay claims to insured survivors.

FEMA proposed to the 117th Congress to eliminate the interest on future debt as well as the cancellation of the current \$20.5 billion debt. These measures are critical to putting the NFIP on a sound financial framework, thereby allowing the program to maximize its wherewithal to aid flood survivors.

NFIP Modifies Benefit-Cost Ratio for Community Grant Programs

There is a Benefit-Cost Analysis (BCA) requirement to access funding through FEMA's Hazard Mitigation Assistance (HMA) grant programs. The BCA is the method used to calculate the future risk reduction benefits of a hazard mitigation project and compares those benefits to its costs.

A project is cost-effective when the Benefit-Cost Ratio (BCR) is 1.0 or greater at a 7% discount rate. A discount rate is the interest rate used in calculating the present value of expected yearly benefits and costs.

FEMA made great strides to simplify the BCA requirement by developing a [toolkit](#) and establishing pre-calculated benefits. However, communities still face challenges with demonstrating the cost effectiveness of their projects.

To reduce barriers and ensure federal funding can reach more communities, FEMA is adjusting how it calculates Benefit-Cost Analysis for two annual grant programs. The changes outlined below affect the Building Resilient Infrastructure and Communities (BRIC) and Flood Mitigation Assistance (FMA) grant programs for the FY22 application cycle.

FEMA will now consider a mitigation project cost-effective if, when using the 7% discount rate, the BCR is at least 0.75 or greater. When using the 3% discount rate, FEMA will consider projects cost-effective if the BCR is at least 1.0 or greater. Projects must also benefit disadvantaged communities and address climate change.

These changes encourage the use of climate-informed science to make our communities safer and reduce disaster suffering. Moreover, the modification is part of our commitment to a "people first" approach to make our entire nation resilient in the face of climate change.

The alternative cost-effectiveness methodology is in place only for the FY 2022 application period for the BRIC and FMA grant programs that opened on September 30, 2022. For questions about cost effectiveness and FEMA's BCA software, contact the BCA Helpline 855-540-6744 or BCHelpline@fema.dhs.gov.