



FEMA



## A Message from the Deputy Associate Administrator for Insurance and Mitigation:



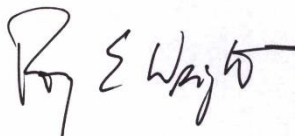
The pages that follow present the first edition of *The Watermark*, a quarterly update of the National Flood Insurance Program's (NFIP) financial standing. This publication continues the NFIP's broader efforts to improve the transparency of the Program's finances and move it towards its goals: achieving a sound financial framework and closing the insurance coverage gap across the Nation.

Losses from Hurricanes Harvey, Irma and Maria drove the NFIP to borrow \$11.9 billion from the U.S. Treasury. As you will see on page four, after an unprecedented \$16 billion cancellation, the NFIP now carries \$20.525 billion in debt. As currently designed, the program cannot repay this debt. In FY 2018 alone, the NFIP will pay over \$375 million of interest expenses.

In the face of these challenges, FEMA's Federal Insurance and Mitigation Administration (FIMA) continues to take the steps within our own authorities to improve the program's financial position. In 2017, FIMA ceded \$150 million to purchase \$1.042 billion of reinsurance, a first for a U.S. Federal government agency. The losses due to Hurricane Harvey triggered a full claim on that reinsurance. Both amounts are reflected in the NFIP Available Resources and the Statement of Operations found on the next page. FIMA built upon this strong foundation by securing a second reinsurance contract for 2018 covering \$1.5 billion of total exposure. While the purchase of reinsurance is a good step forward and transfers some risk to the private market, it is not a silver bullet and further steps must be taken. The Probable Maximum Annual Loss (PML) for the program is still over \$40 billion.

In order for FEMA to continue selling and renewing policies for millions of properties in communities across the nation, Congress must reauthorize the NFIP within this fiscal year. This reauthorization is an opportunity for Congress to increase the soundness of the NFIP's financial framework and ensure the continued payment of claims to policyholders – the quickest route to recovery.

Sincerely,



Roy E. Wright  
Deputy Associate Administrator for Insurance and Mitigation

## NFIP KEY FIGURES

**\$1.274 trillion**  
Insurance in Force

**Over \$40 billion**  
Probable Maximum Annual Loss  
(PML)

**22,039**  
Participating Communities

**\$707**  
Average Annual Premium

**\$20.525 billion**  
Outstanding Debt with Treasury

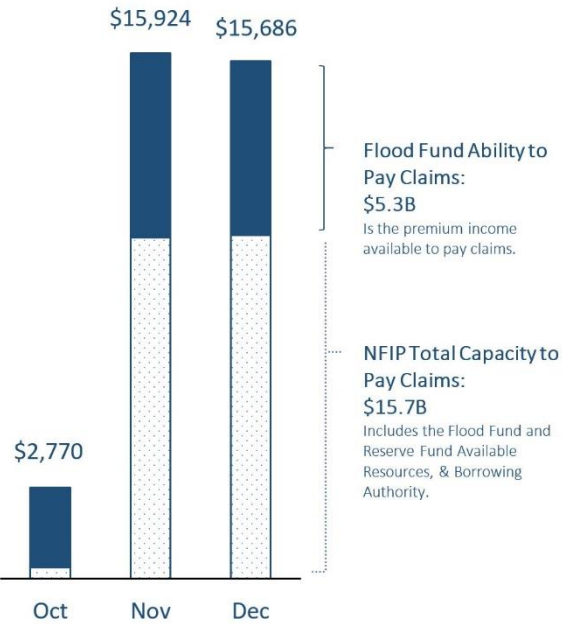
**\$3.833 billion**  
Interest Paid Since Hurricane  
Katrina

**Policies in Force**  
(in thousands)



## NFIP 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.



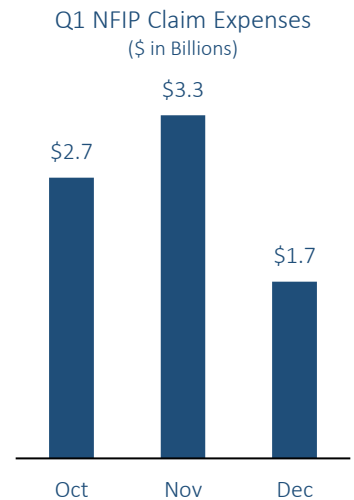
(\$ in Thousands)	Sep 30 2017	Dec 31, 2017
<b>Flood Fund Balance</b>	6,789,242	6,997,737
<b>Outstanding Obligations</b>	(957,024)	(1,715,845)
<b>FLOOD FUND AVAILABLE RESOURCES</b>	5,832,218	5,281,892
<b>Reserve Fund Balance</b>	750,204	503,662
<b>Net Investments</b>	0	0
<b>Outstanding Obligations</b>	(496,003)	0
<b>RESERVE FUND AVAILABLE RESOURCES</b>	254,201	503,662
<b>REMAINING BORROWING AUTHORITY</b>	0	9,900,000
<b>NFIP TOTAL CAPACITY TO PAY CLAIMS</b>	6,086,419	15,685,554

## STATEMENT OF OPERATIONS

(\$ in Thousands)

REVENUE – NATIONAL FLOOD INSURANCE FUND	FY 2017	FY 2018 Q1
Premium	3,012,988	880,386
Reinsurance Collections	0	1,042,000
Federal Policy Fee	194,652	40,321
Other Revenue	13,938	5,358
<b>Total Flood Fund Revenue</b>	3,221,578	1,968,065
EXPENSES – NATIONAL FLOOD INSURANCE FUND	FY 2017	FY 2018 Q1
Loss & Loss Adjustment (Claims)	3,315,844	7,204,707
Commissions	62,055	15,416
WriteYourOwn (WYO) Expense Allowance	920,488	201,449
Interest Paid on Debt	393,761	3,125
Floodplain Management & Mapping Activities	150,847	16,517
Flood Related Grant Activities	208,585	1,288
Other Expenses	195,536	44,477
<b>Total Expenses</b>	5,247,116	7,486,978
<b>FLOOD FUND NET INCOME (LOSS)</b>	<b>(2,025,538)</b>	<b>(5,518,914)</b>
REVENUE – NATIONAL FLOOD INSURANCE RESERVE FUND	FY 2017	FY 2018 Q1
Assessment	484,182	136,515
Surcharge	395,517	112,921
Premium Redemption & Interest	132,781	0
<b>Total RF Revenue</b>	1,012,480	249,437
EXPENSES – NATIONAL FLOOD INSURANCE RESERVE FUND	FY 2017	FY 2018 Q1
Loss & Loss Adjustment (Claims)	1,502,359	495,979
Reinsurance	150,048	0
<b>Total RF Expenses</b>	1,652,407	495,979
<b>NET INCOME (LOSS)</b>	<b>(639,927)</b>	<b>(246,542)</b>

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 18 Quarter 1 or December 31<sup>st</sup>, 2017.



FEMA transferred \$1.042 billion of the NFIP’s financial risk to the private markets through reinsurance in 2017, and subsequently recovered this amount following Hurricane Harvey.

## Impact of Hurricanes Harvey, Irma, and Maria

The 2017 Hurricane season unleashed the second highest claim loss year in the NFIP's 50-year history. As of December 31, claim payouts for Hurricanes Harvey, Irma and Maria total \$7.619 billion, \$737 million, and \$19 million respectively. Payouts are continuing, and losses are projected to exceed \$10 billion for the combined events.

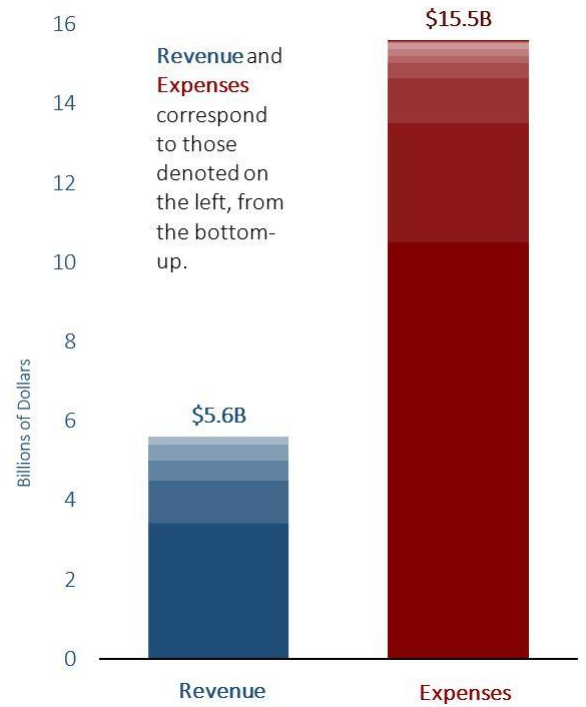
Fiscal year (FY) 2018 will be the second consecutive fiscal year the NFIP's expenses exceed its revenue, following the impact of the Louisiana Floods and Hurricane Matthew on FY 2017.

### Revenue:

- Premium
- Reinsurance
- Reserve Fund Assessment
- Reserve Fund Surcharge
- Federal Policy Fee

### Expenses:

- Harvey, Irma, and Maria Claims (est.)
- Non-Named Flood Claims
- WYO Allowance
- Interest
- Flood Grants
- Operating Expenses
- Flood Mapping
- Floodplain Management
- Salaries & Expenses
- Flood Insurance Advocate



The NFIP borrowed money from the Treasury to address the shortfall in resources.

## Debt History

With minimal borrowing authority from 1985 until 2005, the NFIP was able to cover small principal repayments and accompanying interest expenses, all administrative expenses, and claim payments for a historical average loss year out of premium income and fees. However, cumulative debt increased substantially from 2005-2016 due to extraordinary catastrophic loss years resulting from Hurricane Katrina and Hurricane Sandy.

Heading into the 2017 Hurricane Season, the NFIP was carrying \$24.6 billion in debt and had \$5.825 billion in remaining borrowing authority with Treasury.

After the landfall of Hurricanes Harvey and Irma, the NFIP quickly exhausted its borrowing authority with Treasury to pay for claims and programmatic expenses. Sitting at \$30.425 billion in debt and claims rising, Congress needed to act. Previously, Congress simply raised the borrowing authority, requiring the NFIP to borrow to meet its needs. However, for the first time in the NFIP's history, recognizing that the Program was not designed to handle catastrophic events, Congress granted \$16 billion in debt cancellation. The NFIP then borrowed \$6.1 billion to cover incurred and anticipated expenses from the hurricane season.

As of December 31, 2017, NFIP has \$20.525 billion of outstanding debt with Treasury (average interest rate of 1.9%).

Total Borrowing Authority	\$30.425B	Total Debt on Aug 25, 2017:	\$24.600B
Outstanding Debt	<u>-\$20.525B</u>	Borrowed	<u>\$5.825B</u>
Available Borrowing Authority	\$9.900B	Total Debt on Sep 30, 2017:	\$30.425B
		Debt Cancelled	<u>-\$16.000B</u>
		Total Debt on Nov 1, 2017:	\$14.425B
		Borrowed	<u>\$6.100B</u>
		Current Debt	\$20.525B

