



---

FINANCIAL SERVICES COMMITTEE DEMOCRATS

Understanding the National Flood Insurance Program's Debt:  
**Myth vs. Fact**

---

NFIP's Debt by the Numbers:

- **Current Amount:** \$23 billion
- **Estimated Repayment Date:** Never
- **Cost to NFIP policyholders:** \$23 billion + interest
- **Cost to the Taxpayer:** \$0

**MYTH:** *Forgiving the National Flood Insurance Program's (NFIP's) \$23 billion debt is a bailout and creates moral hazard by rewarding the agency for the same program mismanagement that created the debt in the first place.*

**FACT:** *The NFIP's debt is the result of Congressional design, not mismanagement.* For most of its nearly 50-year history, the NFIP has been largely self-sustaining – funded by insurance premiums and fees paid by policyholders. However, the NFIP is designed to draw from the Treasury to fund large catastrophic events that cannot be paid by premiums and fees alone.

**MYTH:** *The general taxpayer is on the hook for the NFIP's debt.*

**FACT #1:** *The NFIP's debt is paid for through premiums and fees collected from policyholders, not general tax dollars.* The NFIP has levied increased fees on policyholders to help build back from catastrophic losses, which means it is the *policyholders* that are responsibly maintaining flood insurance coverage who are actually on the hook for the NFIP's debt. In fact, nearly 65 percent of all NFIP premiums and policy fees are spent on losses and debt reduction, including interest payments.<sup>1</sup>

**FACT #2:** *Moreover, taxpayers are on the hook for non-NFIP post-disaster relief appropriated by Congress and disbursed by FEMA and HUD.* NFIP policyholders that are responsibly maintaining flood insurance coverage are helping to lower the amount that taxpayers pay out to help communities recover. So while taxpayers are not currently on the hook for the NFIP's debt, forgiving the debt and ensuring the long-term stability of the NFIP *saves* taxpayer dollars – by FEMA's estimates, the savings because of the NFIP's building and floodplain management regulations add up to \$1.87 billion a year.<sup>2</sup>

**MYTH:** *The NFIP is capable of repaying its current debt level and does not need Congressional intervention.*

**FACT:** *In a January 2014 report, the GAO stated that "NFIP is unlikely to be able to repay this debt in the near future, if ever."*<sup>3</sup> Meanwhile, it has spent \$5.7 billion dollars in principal and interest on the debt. This is money that the federal government is spending to lend itself money, instead of building up the NFIP's Reserve Fund for future catastrophic loss years.

---

<sup>1</sup> GAO, "Flood Insurance: Forgone Premiums Cannot be Measured and FEMA Should Validate and Monitor Data System Changes," December 2014, available at: <http://www.gao.gov/assets/670/667413.pdf>

<sup>2</sup> CRS, "Introduction to FEMA's National Flood Insurance Program," August 2016.

<sup>3</sup> GAO, "Flood Insurance: Strategies for Increasing Private Sector Involvement," January 2014.