



National Flood Insurance Program

The National Flood Insurance Program (NFIP) was established with the passage of the National Flood Insurance Act of 1968. The NFIP is a federal program enabling property owners in participating communities to purchase flood insurance as protection against flood losses, while requiring state and local governments to enforce floodplain management ordinances that reduce future flood damage. More than 22,000 communities in the United States voluntarily participate in the NFIP and approximately five million NFIP policies are in force, providing \$1.25 trillion of contents and structure/building coverage.

Financial Protection Against Flood Loss

Floods are the most common and costly natural disaster in the United States. Fortunately, property owners who live in communities participating in the NFIP can purchase a policy for their property to insure it against flood losses. Since 1969, the NFIP has paid more than \$50 billion dollars in flood insurance claims that have helped hundreds of thousands of families and businesses recover from flood events.

To participate in the NFIP, a community must adopt and enforce floodplain management ordinances that meet or exceed the minimum requirements of the program. These requirements are intended to prevent loss of life and property and reduce taxpayer costs for disaster relief, as well as minimize economic and social hardships that result from flooding. The specific requirements that a community must adopt depend on the type of flood hazard faced by the community.

Everyone Needs Flood Insurance

While flood insurance is not mandatory for property owners with buildings outside a mapped, high-risk area, anywhere it can rain, it can flood, so anyone can be financially vulnerable to flooding. People outside of high-risk areas submit more than 20 percent of paid NFIP claims and receive one-third of the disaster assistance for flooding. A property owner who is not located in a high-risk area should ask their insurance agent if their building is eligible for the Preferred Risk Policy, which provides lower-cost flood insurance protection.

Common Misconceptions about the National Flood Insurance Program

Some people think that a homeowners policy covers flood damage. In fact, most homeowners policies do not cover flooding.

In addition, federal disaster assistance is not always available, as the President must declare a major disaster before most forms of federal disaster assistance can be offered. Some forms of disaster assistance are loans that must be repaid with interest, and if the building is in a high-risk flood area, flood insurance will be required as a contingency for the loan.

For additional information about the NFIP, visit: www.fema.gov/national-flood-insurance-program or call 1-800-427-4661.



Why Buy Flood Insurance?

Purchasing flood insurance is a powerful action property owners can take before a flood event to mitigate, or lessen, their financial risk.

Property owners with buildings in mapped high-risk areas, referred to as Special Flood Hazard Areas (SFHAs), are required by law to purchase flood insurance if they have a mortgage from a federally regulated or insured lender. They also must carry the insurance for the life of the mortgage.

Flood Insurance Waiting Periods

In general, a policy does not take effect until 30 days after the purchase of flood insurance. However, if a policy is purchased in connection with the making, increasing, extension, or renewal of a loan, there is no waiting period. There is only a 1-day waiting period if the purchase is related to the revision or update of a Flood Insurance Rate Map (FIRM) within 13 months of the new FIRM effective date.

Flood Insurance Coverage

Direct physical damage to buildings or personal property by flood is generally covered under the policy. For example, damage caused by a sewer backup is covered if the backup is a direct result of flooding. However, if the backup is caused by some other problem, the damage is not covered. For more information on what is and isn't covered by flood insurance, see the National Flood Insurance Program Summary of Coverage at <https://www.fema.gov/media-library/assets/documents/12179>.

The NFIP's Financial Health

With the impacts of several large flood disasters over the past years, the NFIP experienced times when the cost of policy claims far exceeded the amount of premiums and accumulated surplus. This resulted in the NFIP incurring a debt to the U.S. Treasury of more than \$23 billion.

To more effectively manage risk, Congress granted FEMA the authority to implement several new processes, including developing a policyholder reserve fund and creating a reinsurance program.

In September 2016, FEMA secured a small amount of reinsurance, marking the first-ever placement of its kind by the federal government. FEMA obtained a second placement of reinsurance, effective from January 1, 2017, through January 1, 2018, that transferred \$1.042 billion of the NFIP's financial risk to the private reinsurance market.

The recent placement of reinsurance covers a portion (\$4 billion to \$8 billion) of any NFIP losses arising from a single flooding event.

"FEMA's mission is to support our citizens and first responders to ensure that as a nation we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards."