



# Quarterly National Flood Insurance Program

# Reserve Fund Report

for quarter ending September 30, 2023

Report to Congress

March 5, 2024



FEMA

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## Foreword



I am submitting the quarterly update to the National Flood Insurance Program (NFIP) Reserve Fund Report, prepared by the Federal Emergency Management Agency (FEMA).

The Report was compiled pursuant to requirements of section 1310A(e) of the *National Flood Insurance Act of 1968*, as amended (42 U.S.C. § 4017a(e)), which requires FEMA to submit a report to Congress on a quarterly basis for any fiscal year (FY) that the required reserve ratio cannot be achieved.

The Report is an update on the NFIP's Reserve Fund through September 30, 2023. Page 1 discusses legislative language and reporting requirements while Page 2 covers statutory requirements of the Reserve Fund. The quarterly update on Reserve Fund collections, investments, and disbursements begins on Page 4. Finally, the limitation on the reserve ratio begins on Page 9, followed by consequences. Supplementary financial information is located in *The Watermark*, a quarterly financial report on the NFIP available [online](#) at FEMA.gov.

This report is provided to the following Members of Congress:

- The Honorable Sherrod Brown  
Chairman, Senate Committee on Banking, Housing, and Urban Affairs
- The Honorable Tim Scott  
Ranking Member, Senate Committee on Banking, Housing, and Urban Affairs
- The Honorable Patrick McHenry  
Chairman, House Committee on Financial Services
- The Honorable Maxine Waters  
Ranking Member, House Committee on Financial Services

Please direct report inquiries to FEMA's Congressional Affairs Division at 202-646-4500.

Sincerely,

A handwritten signature in black ink that reads "Deanne Criswell". The signature is fluid and cursive, with the first name "Deanne" and last name "Criswell" clearly legible.

Deanne Criswell  
Administrator

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# Legislative Language

This report is a quarterly update to the Annual Reserve Fund Report that is required by the *National Flood Insurance Act of 1968* (NFIA), as amended (42 U.S.C. § 4001 et seq.). Specifically, section 1310A (42 U.S.C. § 4017a), as added by the *Biggert-Waters Flood Insurance Reform Act of 2012* (BW-12), and amended by the *Homeowner Flood Insurance Reform Act of 2014* (HFIAA),<sup>1</sup> subsection (e), states:

- (e) *LIMITATION ON RESERVE RATIO—In any given fiscal year, if the Administrator determines that the reserve ratio required under subsection (b) cannot be achieved, the Administrator shall submit, on a calendar quarterly basis, a report to Congress that—*
  - (1) *describes and details the specific concerns of the Administrator regarding the consequences of the reserve ratio not being achieved;*
  - (2) *demonstrates how such consequences would harm the long-term financial soundness of the flood insurance program; and*
  - (3) *indicates the maximum attainable reserve ratio for that particular fiscal year.*

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<sup>1</sup> MAP-21, Pub. L. 112-141, div. F, title II, § 100212, 126 Stat. 405, 923 (2012)  
*Homeowner Flood Insurance Affordability Act of 2014*, Pub. L. No. 113-89, § 20, 128 Stat. 1020, 1028 (2014).

# Reserve Fund Statutory Requirements

FEMA is authorized to establish a Reserve Fund in the U.S. Treasury, which is “an account separate from any other accounts or funds available to the Administrator.” 42 U.S.C. § 4017a(a)(1). The Reserve Fund is available to FEMA “for meeting the expected future obligations of the flood insurance program.” *Id.* § 4017a(a)(2).

Reserve Ratio and Phase-in Requirement. FEMA is required to maintain a minimum balance in the Reserve Fund equal to “1% of the sum of the total potential loss exposure of all outstanding flood insurance policies in force in the prior fiscal year” (referred to as the “reserve ratio”) or “such higher percentage as the Administrator determines to be appropriate.” § 4017a(b). FEMA may phase-in the reserve ratio by placing an amount equal to not less than 7.5 percent of the reserve ratio (referred to as the “phase-in requirement”) in the Reserve Fund each fiscal year. § 4017a(d)(1).

Deposits into the Reserve Fund. Pursuant to BW-12, FEMA is required to deposit the following assessments and surcharges collected into the Reserve Fund to achieve and maintain the reserve ratio:

- (1) *Reserve Fund Assessments.* A policyholder assessment, which FEMA can increase or decrease in any fiscal year (referred to as the “Reserve Fund Assessment”). *Id.* § 4017a(c)(1).

FEMA is authorized to establish, increase, or decrease the Reserve Fund Assessment in any fiscal year to achieve and maintain the reserve ratio. § 4017a(c)(1). The Administrator has discretion to set the assessment after considering expected operating expenses of the Reserve Fund; flood insurance loss expenditures; any investment income generated under the flood insurance program; and other factors the Administrator determines appropriate. §4017a(c)(2).

In setting the Reserve Fund Assessment, FEMA is subject to NFIA provisions relating to chargeable premium rates or annual increases of such rates. *Id.* § 4017a(c)(3)(A). The Assessment was formerly a 15 percent charge on all policies based on projected annual revenue. However, for policies effective on or after April 1, 2020, the Reserve Fund Assessment increased to 18 percent.

- (2) *Homeowners Flood Insurance Affordability Act (HFIAA) surcharge.* As mandated under HFIAA, FEMA shall impose and collect a fixed annual surcharge on all NFIP policies newly issued or renewed after the date of enactment of HFIAA. *Id.* § 4015a. The surcharge is \$25 for primary residences and \$250 for all other policies – collected from policyholders as part of their premium payment. *Id.* § 4015a(b).

Report to Congress. If, in any given fiscal year, the Administrator determines the reserve ratio cannot be achieved, the Administrator shall submit a report to Congress on a quarterly basis that addresses three areas: (1) the specific concerns of the Administrator regarding the consequences of the reserve ratio not being achieved; (2) how such consequences would harm the long-term financial soundness of the NFIP; and (3) the maximum attainable reserve ratio for the fiscal year. *Id.* § 4017a(e).

## Changes from Previous Report

The current report has incorporated changes from the previous report, outlined below by section.

- *Template:* Unchanged.
- *Foreword:* Updated to reflect current quarter dates.
- *Table of Contents:* Updated to reflect current fiscal year.
- *Legislative Language:* Unchanged.
- *Reserve Fund Statutory Requirements:* Unchanged.
- *Quarterly Update:* This section contains the updated figures for collections, investments, disbursements, and total activity from the third quarter (Q3) of Fiscal Year (FY) 2023.

# Quarterly Update

## 1. Collections

The Reserve Fund collects money through the Reserve Fund Assessment and the HFIAA surcharge. The Assessment is an 18 percent charge on all policies, and the surcharge is a fixed annual charge based on property type.

There is a timing difference from when Reserve Fund dollars are collected from policyholders and when those dollars are transferred into the Reserve Fund account. Funds do not transfer from the National Flood Insurance Fund (NFIF), where they are deposited, until FEMA verifies the reported amounts and allocation of assessments and surcharges. Lag time between receiving funds from policyholders and depositing them into the Reserve Fund is typically two months.

The Reserve Fund collected \$273,231,491 in the fourth quarter of FY 2023. Since its inception through the fourth quarter of FY 2023, aggregate Reserve Fund collections totaled \$8,022,152,685.

Reserve Fund Collections			
As of	Reserve Fund Assessment	HFIAA Surcharge	Total Collections
FY14 Total	\$151,680,574	—	\$151,680,574
FY15 Total	\$337,652,470	\$278,919,449	\$616,571,919
FY16 Total	\$495,292,366	\$425,257,126	\$920,549,492
FY17 Total	\$486,480,907	\$397,001,308	\$883,482,215
FY18 Total	\$491,158,016	\$374,898,511	\$866,056,527
FY19 Total	\$506,988,455	\$357,864,568	\$864,853,023
FY20 Total	\$584,633,835	\$341,920,348	\$926,554,183
FY21 Total	\$632,863,824	\$325,696,711	\$958,560,535
FY22 Total	\$584,177,919	\$310,299,264	\$894,477,183
Q1 FY23	\$120,445,002	\$67,542,504	\$187,987,506
Q2 FY23	\$133,879,969	\$69,676,279	\$203,556,248
Q3 FY23	\$186,679,142	\$87,912,647	\$274,591,789
Q4 FY23	\$184,260,288	\$88,971,203	\$273,231,491
<b>Total from Inception</b>	<b>\$4,896,192,767</b>	<b>\$3,125,959,918</b>	<b>\$8,022,152,685</b>

Figure 1. Reserve Fund Collections through the Fourth Quarter of FY 2023



## 2. Investments

By statute, the Secretary of the U.S. Treasury can invest the Reserve Fund balance in securities issued or guaranteed by the United States. 42 U.S.C. § 4017a(f). On October 29, 2014, FEMA began investing amounts from the Reserve Fund into U.S. Treasury securities. As of September 30, 2023, Reserve Fund net investments totaled \$3,358,721,683.

Reserve Fund Investments – Balance Sheet				
As of	Investments	Premium/Discount	Amortization	Investments, Net
FY15 Total	\$692,144,032	\$79,283,837	(\$15,406,971)	\$756,020,897
FY16 Total	\$3,253,126,003	\$483,607,319	(\$100,216,395)	\$3,636,516,927
FY17 Total	\$580,837,731	(\$606,710)	\$162,285	\$580,393,305
FY18 Total	\$1,381,142,808	(\$20,490,094)	\$3,540,234	\$1,364,192,948
FY19 Total	\$4,697,467,416	(\$109,722,401)	\$33,601,845	\$4,621,346,860
Dec-19	\$1,466,780,656	(\$35,399,413)	\$18,147,153	\$1,449,528,396
Mar-20	\$1,211,938,658	(\$25,784,277)	\$11,929,112	\$1,198,083,494
Jun-20	\$1,749,919,492	(\$29,109,050)	\$13,884,071	\$1,734,694,513
Sep-20	\$1,589,619,387	(\$25,645,834)	\$14,020,708	\$1,577,994,260
Dec-20	\$1,522,166,255	(\$24,692,703)	\$16,354,778	\$1,513,828,330
Mar-21	\$2,113,106,310	(\$25,725,795)	\$14,865,858	\$2,102,246,374
Jun-21	\$1,513,106,310	(\$21,231,855)	\$12,100,126	\$1,503,974,581
Sep-21	\$1,341,657,872	(\$14,294,459)	\$6,667,835	\$1,334,031,248
Dec-21	\$1,341,657,872	(\$14,294,459)	\$7,627,457	\$1,334,990,870
Mar-22	\$1,929,074,472	(\$23,175,114)	\$5,785,664	\$1,911,685,023
Jun-22	\$2,472,456,434	(\$66,645,671)	\$9,860,226	\$2,415,670,989
Sep-22	\$2,472,456,434	(\$66,645,671)	\$15,749,167	\$2,421,559,930
Dec-22	\$2,388,454,442	(\$65,136,260)	\$20,151,927	\$2,343,470,109
Mar-23	\$2,388,454,442	(\$65,136,260)	\$25,941,347	\$2,349,259,530
Jun-23	\$2,962,683,952	(\$64,224,501)	\$26,498,198	\$2,924,957,649
Sep-23	\$3,390,790,411	(\$66,485,116)	\$34,416,388	\$3,358,721,683

Figure 2. Reserve Fund Investment Activity through the Fourth Quarter of FY 2023

### 3. Disbursements

The Reserve Fund is available to meet expected future NFIP obligations, including payment of claims, claims adjustment expenses, purchase of reinsurance, and repayment of debt and debt interests as described in 42 U.S.C. § 4017a(a)(2). In the fourth quarter of FY 2023, FEMA disbursed \$70,936,325 from the Reserve Fund for traditional and insurance-linked securities reinsurance premiums.

In Quarter 4 FY 2022, FEMA used \$73 million and in Quarter 1 FY 2023 \$26 million from the Reserve Fund to pay agent commissions and compensation (referred to as Commissions and Taxes of Agents (CTA) that was insufficient in FY 2022. FEMA's FY 2022 President's Budget projections for CTA of \$876 million, which Congress enacted, were lower than actual premium collections and related CTA (an operating expense) due to timing assumptions for premium decreases under Risk Rating 2.0. FEMA's projection assumed a higher number of policies renewing with premium decreases under Risk Rating 2.0 between October 1, 2021, and April 1, 2022. Instead, fewer policyholders took advantage of an optional early effective date with a lower premium renewal, leading to higher-than-expected premium collections.

In FY 2023, the CTA was insufficient in comparison to FEMA's FY 2023 President's Budget projections of \$961 million. As a result, in Quarter 4 FY 2023, FEMA used \$76 million from the Reserve Fund to pay agent commissions and compensation in excess of the budgeted amount.

For FY 2024, FEMA has made process improvements to improve the methodology for estimating CTA expenses to ensure sufficient resources to mitigate Reserve Fund access.

Reserve Fund Disbursements			
As of	Claims Paid/ Operating Expenses	Reinsurance	Total
FY17 Total	(\$1,502,358,903)	(\$150,048,000)	(\$1,652,406,903)
FY18 Total	(\$495,979,100)	(\$248,620,876)	(\$744,599,976)
FY19 Total	\$0	(\$266,139,360)	(\$266,139,360)
FY20 Total	\$0	(\$285,703,691)	(\$285,703,691)
FY21 Total	\$0	(\$391,715,793)	(\$391,715,793)
FY22 Total	(\$73,073,715)	(\$365,747,024)	(\$438,820,739)
Q1 FY23	(\$26,023,004)	(\$91,333,993)	(\$117,356,997)
Q2 FY23	\$0	(\$70,017,759)	(\$70,017,759)
Q3 FY23	\$0	(\$70,638,552)	(\$70,638,552)
Q4 FY23	(\$76,147,995)	(\$70,936,325)	(\$147,084,320)
Total from Inception	(\$2,173,582,717)	(\$2,010,901,373)	(\$4,184,484,090)

Figure 3. Reserve Fund Disbursement Activity through the Fourth Quarter of FY 2023

## 4. Total Activity Summary

The table below shows total Reserve Fund cash flow activity since inception, as recorded by the U.S. Treasury. As of September 30, 2023, the Reserve Fund had a cash balance with U.S. Treasury of \$472,717,178.

Reserve Fund Combined Activity From Inception through September 30, 2023								
Quarter Ending	Transfers from NFIF to Reserve Fund	Cash Flow From Treasury Securities					Disbursements	Reserve Fund Cash Balance
		Securities Purchased	Securities Matured	Securities Sold	Premium/Discount	Interest Received		
FY 14	\$122,133,029	—	—	—	—	—	—	\$122,133,029
FY 15	\$477,056,961	(\$310,000,000)	\$19,742,708	—	(\$537,155)	\$9,607,971	—	\$318,003,514
FY 16	\$918,592,086	(\$1,040,000,000)	\$108,064,018	—	(\$5,443,173)	\$51,883,459	—	\$351,099,905
FY 17	\$879,804,428	(\$580,325,799)	\$0	\$1,619,875,202	\$109,059,332	\$23,098,082	(\$1,652,406,903)	\$750,204,247
FY 18	\$879,527,234	(\$943,541,482)	\$223,583,475	—	\$297,819	—	(\$744,599,976)	\$165,471,318
FY 19	\$865,181,672	(\$1,375,162,214)	\$602,964,588	—	\$4,980,715	\$14,556,651	(\$266,139,360)	\$11,853,370
Dec-19	\$233,706,801	—	\$57,500,000	—	\$1,098,933	\$682,516	(\$24,397,637)	\$280,443,983
Mar-20	\$169,869,123	(\$266,000,000)	\$510,000,000	—	\$11,846,644	\$6,189,919	(\$83,809,553)	\$628,540,116
Jun-20	\$206,865,767	(\$649,263,823)	\$60,850,000	—	\$1,169,167	\$682,516	(\$88,276,633)	\$160,567,110
Sep-20	\$293,300,406	—	\$156,836,889	—	\$3,463,216	\$6,189,919	(\$89,219,868)	\$531,137,672
Dec-20	\$260,606,042	—	\$66,500,000	—	\$953,132	\$1,093,059	(\$89,580,812)	\$770,709,092
Mar-21	\$187,347,300	(\$700,000,000)	\$109,630,472	—	\$4,475,077	\$5,497,504	(\$99,683,334)	\$277,976,111
Jun-21	\$226,357,674	—	\$595,506,060	—	\$4,493,940	\$65,884,764	(\$105,910,523)	\$1,064,308,027
Sep-21	\$286,231,552	—	\$164,511,042	—	\$6,937,396	\$4,855,661	(\$96,541,124)	\$1,430,302,554
Dec-21	\$256,942,681	—	—	—	—	\$1,563,823	(\$91,904,169)	\$1,596,904,889
Mar-22	\$189,830,236	(\$750,000,000)	\$171,179,241	—	\$3,800,338	\$3,891,263	(\$91,600,529)	\$1,124,005,438
Jun-22	\$205,422,116	(\$500,000,000)	—	—	—	\$2,040,321	(\$90,908,333)	\$740,559,542
Sep-22	\$262,251,889	—	—	—	—	\$2,360,192	(\$164,407,708)	\$840,763,914
Dec-22	\$230,517,425	—	\$82,492,581	—	\$1,509,411	\$2,719,548	(\$117,356,997)	\$1,040,645,882
Mar-23	\$180,700,440	—	—	—	—	\$2,360,192	(\$70,017,759)	\$1,153,688,754
Jun-23	\$220,983,475	(\$2,000,000,000)	\$1,424,858,732	—	\$8,619,803	\$2,037,032	(\$70,638,552)	\$739,549,245
Sep-23	\$287,061,074	(\$3,900,000,000)	\$3,474,154,156	—	\$16,676,832	\$2,360,192	(\$147,084,320)	\$472,717,178
<b>TOTAL</b>	<b>\$7,840,289,411</b>	<b>(\$13,014,293,318)</b>	<b>\$7,828,373,962</b>	<b>\$1,619,875,202</b>	<b>\$173,401,426</b>	<b>\$209,554,586</b>	<b>(\$4,184,484,092)</b>	

Figure 4. Reserve Fund Account – Cash Flow through the Fourth Quarter of FY 2023

# Reserve Ratio Limitation

The reserve ratio is “1% of the sum of the total potential loss exposure of all outstanding flood insurance policies-in-force in the prior fiscal year,” and that reserve ratio may be achieved via a “phase-in requirement” by collecting at least 7.5 percent of the reserve ratio each year per 42 U.S.C. §§ 4017a(b), (d). This is 7.5 percent of the 1 percent of the total potential loss exposure.

At the end of FY 2022 (Sept. 30, 2022), the total amount of insurance-in-force was \$1.3 trillion. Therefore, in FY 2023, the 1 percent target is \$12.9 billion, an amount that changes annually (with changes of insurance-in-force). As of September 30, 2023, the reserve ratio requirement was not met, as the cash balance is \$473 million with net investments of \$3.359 billion in U.S. Treasury securities.

In FY 2023, the phase-in requirement is \$967 million, which FEMA is not projected to reach due to changing constitution of NFIP policies. Given projected Reserve Fund assessments and HFIAA surcharges, the Reserve Fund, as currently structured, will not achieve the required reserve ratio in the next decade. Even if the NFIP has no debt, does not need to make interest payments to the U.S. Treasury from the Reserve Fund, and has no need to access the Reserve Fund in the interim, the reserve ratio will not be achieved. FEMA considered increasing the number of properties with flood insurance, including both private and NFIP coverage, but increased revenue from NFIP coverage is offset by a corresponding increase in exposure, and the NFIP is still unable to achieve the reserve ratio in the next decade.

The remainder of this report addresses the consequences of not achieving the reserve ratio requirement for FY 2023.

## 1. Concerns About Not Achieving the Reserve Ratio

The consequences of the reserve ratio not being achieved are:

- **Increased likelihood of future borrowing or need for additional budgetary resources:** Should a moderately large to catastrophic flooding event occur, the NFIP will exhaust the Reserve Fund, and, if necessary, pay policyholders’ claims through additional borrowing from the U.S. Treasury. In the event borrowing authority is exhausted, legislation must be enacted to increase the NFIP borrowing limit, provide an appropriation to repay or cancel NFIP debt, or add budgetary resources to the NFIP.
- **Lost investment income to the NFIP:** The Reserve Fund may be invested in securities issued or guaranteed by the United States. If the Reserve Fund balance was \$12.9 billion, which is the reserve ratio requirement, the NFIP would receive \$193.5 million of annual income at an annual interest rate of about 1.5 percent. Under an interest rate of 2.86 percent, the interest income would be approximately \$368.9 million annually.

- **Lack of available funds:** There would be little to no funds to pay interest accrued on NFIP's \$20.525 billion debt and other program losses. For FY 2023, annual accrued interest on NFIP debt totaled approximately \$466.8 million and it is projected to grow to \$750 million annually by FY 2033, if interest rates on three-year U.S. Treasury notes exceed 3 percent.

The conclusion is FEMA is highly unlikely to achieve the required reserve ratio in the next 10 years as the program is currently designed.

## 2. Demonstrate Harm to Long-Term Soundness of NFIP

Losses in any non-catastrophic year are highly variable. Timing and magnitude of large catastrophic events are also very uncertain. While it is certain large storms similar in magnitude to Hurricane Katrina or greater will happen, it is not possible to foresee when or where they will occur. Therefore, widely divergent results are possible.

Due to depleted or insufficient Reserve Fund balances, the NFIP lacks a critical tool to bolster its financial position. Specifically, not having a fully funded reserve ratio of \$12.9 billion available for future obligations can harm long-term soundness of the NFIP in the following ways:

- The NFIP may exceed its current borrowing authority of \$30.425 billion, and
- The NFIP does not receive additional annual interest income it would have made from investing the total \$12.9 billion of a viably funded program in the U.S. Treasury securities.

Program debt is projected to remain at \$20.525 billion until FY 2027, while the cash balance for claim payments steadily deteriorate throughout the 10-year period. After this balance is exhausted, the NFIP would need to borrow further, with total debt reaching \$25.4 billion by FY 2033.

The NFIP seeks to strengthen its financial framework by efficiently managing program exposure risk and transforming the way FEMA rates flood risk and prices insurance, as well as utilizing various financial tools, including the Reserve Fund and reinsurance.

## 3. Maximum Attainable Reserve Ratio & Phase-In Requirement for Fiscal Year 2023

In the fourth quarter of FY 2023, the Reserve Fund collected nearly \$273 million and invested some of its funds in U.S. Treasury securities, resulting in a Cash Balance of \$473 million and net investments of \$3.4 billion as of September 30, 2023.

In FY 2023, the fourth quarter maximum attainable reserve ratio is 30 percent of the \$12.9 billion target totaling \$3.9 billion.

Maximum Attainable Reserve Ratio	
(Dollars in Millions)	
Balance with Treasury (9/30/2023)	473
Net Investments (9/30/2023)	3,359
Projected Remaining Collection	182
Projected Reinsurance Costs	(71)
<b>End of Year Balance</b>	<b>3,943</b>

**Figure 5. Maximum Attainable Reserve Ratio for FY 2023 Q4**

When building towards the Reserve Ratio, FEMA's phase-in requirement is placing into the Reserve Fund an amount not less than 7.5 percent of the Reserve Ratio in any given fiscal year. Currently, 7.5 percent of the required \$12.9 billion Reserve Ratio yields a \$967 million phase-in requirement. It is expected that the Reserve Fund will collect \$939 million in revenue in FY23. This represents approximately 97 percent of the phase-in requirement target.