The Watermark

FEDERAL INSURANCE & MITIGATION ADMINISTRATION

Fiscal Year 2018, Third Quarter
Volume 3

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

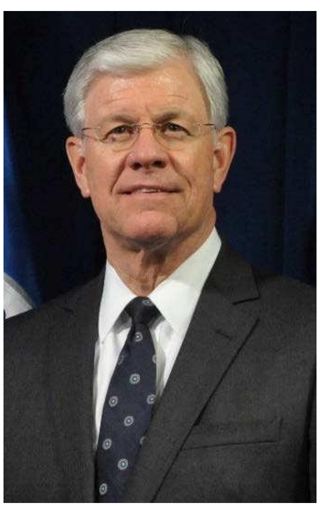
One of Merriam-Webster's definitions for resilience is "an ability to recover from or adjust easily to misfortune or change." At FEMA, we have had a number of changes over the past few months, but our commitment to our goals and objectives continues unabated.

Organizationally, the Federal Insurance and Mitigation Administration (FIMA) is now a part of FEMA Resilience. FIMA is an integral component of this group, which aims to build a culture of preparedness through insurance, mitigation, preparedness, continuity, and grant programs.

Some of the changes have come in the form of victories. In April, FIMA published the *"Affordability Framework for the NFIP,"* the first ever data-driven analysis of household incomes and flood risk, and we are working with the Administration on proposals to provide affordable insurance to those who need it most. More information on the study and findings is available on the back page. An additional victory took place on the NFIP's 50th Anniversary, August 1st, when FIMA made a reinsurance placement in the capital markets—a first for a government agency, and a key step towards a sound financial framework. The next quarterly edition of the Watermark will feature this historic step.

Change is also expected to come with the Risk Rating and Policy Forms Redesign. FIMA is initiating this multi-year initiative to better align risk classification and rating, along with policy provisions, to current industry standards. This Redesign initiative is intended to ensure that risk ratings – and therefore premiums – appropriately reflect an individual property's actual level of risk, allowing for more intuitive understanding by homeowners of their flood risk. FIMA will continue articulating Redesign updates to our policyholders. FIMA has further highlighted our goals, preliminary changes, and initial segments of rates on the back page.

It is times like this when resilience comes to bear. We have to be able to recover from change – to adjust and adapt. What does not change is FIMA's commitment to our agency's mission and vision. Our efforts to build a culture of preparedness through increased mitigation investment and closing the insurance gap remain ever resilient. We remain dedicated to making our goals, known as Moonshots, a reality: more insured survivors and less disaster suffering.



Sincerely,

David I. Maurstad
Deputy Associate Administrator for Insurance and Mitigation

NFIP KEY FIGURES

$1.295 trillion
Insurance in Force

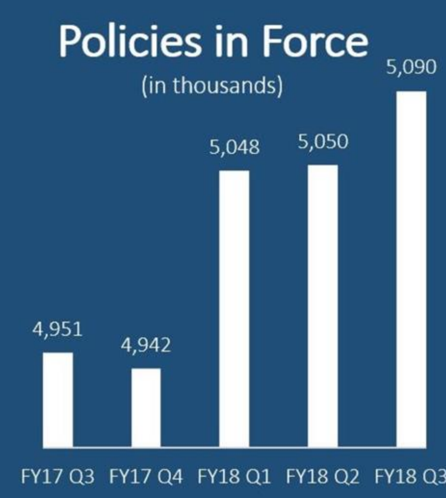
Over $40 billion
Probable Maximum Annual Loss (PML)

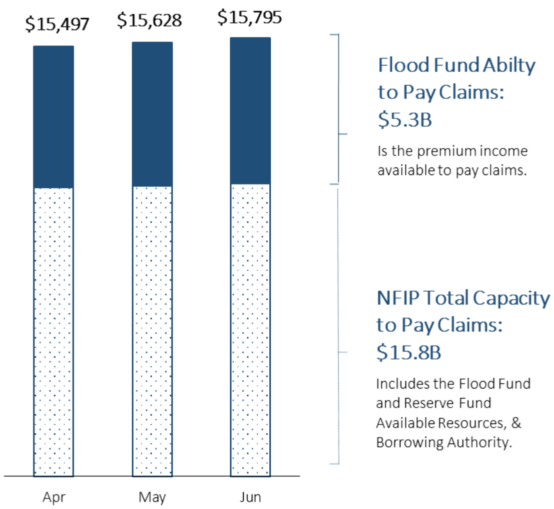
22,320
Participating Communities

$701
Average Annual Premium

$20.525 billion
Outstanding Debt with Treasury

$4.003 billion
Interest Paid Since Hurricane Katrina





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.

Available Resource *($ in Thousands)*	Mar 31, 2018	Jun 30, 2018
Flood Fund Balance	5,785,561	5,948,223
Outstanding Obligations	(728,090)	(698,055)
Flood Fund Available Resources	5,057,471	5,250,168
Reserve Fund Balance	445,658	0
Net Investments	0	644,535
Outstanding Obligations	0	0
Reserve Fund Available Resources	445,658	644,535
Remaining Borrowing Authority	9,900,000	9,900,000
NFIP TOTAL CAPACITY TO PAY CLAIMS*	15,403,129	15,794,703

*FEMA's Calendar-Year 2018 traditional reinsurance placement augments the NFIP's Capacity to Pay Claims. After losses for a single event exceed $4B until $8B the NFIP may collect up to $1.46B, meaning the Capacity to Pay Claims would be $17.255B. FEMA paid $235M for the coverage.

STATEMENT OF OPERATIONS*

($ in Thousands)

NATIONAL FLOOD INSURANCE FUND

REVENUE	FY 2017	FY 2018 Q3	FY 2018 YTD
Premium	3,012,988	1,016,660	2,566,150
Reinsurance Collections	0	0	1,042,000
Federal Policy Fee	194,652	58,703	137,674
Other Revenue	13,938	3,268	11,234
Total Flood Fund Revenue	3,221,578	1,078,631	3,757,058

EXPENSES	FY 2017	FY 2018 Q3	FY 2018 YTD
Loss & Loss Adjustment (Claims)	3,165,796	295,950	8,935,970
Commissions	62,055	14,476	43,057
WriteYourOwn (WYO) Expense Allowance	920,488	185,475	659,073
Interest Paid on Debt	393,761	0	173,048
Floodplain Management & Mapping Activities	150,847	47,070	101,379
Flood Related Grant Activities	208,585	22,381	28,991
Other Expenses	345,584	284,213	417,521
Total Expenses	5,247,116	849,565	10,359,038
NET INCOME (LOSS)	(2,025,538)	229,066	(6,601,980)

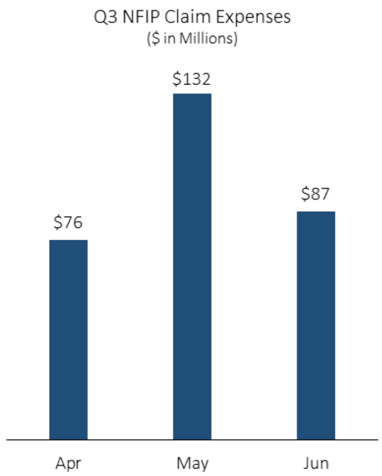
NATIONAL FLOOD INSURANCE RESERVE FUND

REVENUE	FY 2017	FY 2018 Q3	FY 2018 YTD
Assessment	484,726	114,632	348,518
Surcharge	395,596	81,441	273,616
Premium Redemption & Interest	132,157	154	154
Total RF Revenue	1,012,480	196,227	622,288

EXPENSES	FY 2017	FY 2018 Q3	FY 2018 YTD
Loss & Loss Adjustment (Claims)	1,502,359	0	495,979
Reinsurance	150,048	0	234,629
Total Reserve Fund Expenses	1,652,407	0	730,608
RESERVE FUND NET INCOME (LOSS)	(639,927)	196,227	(108,320)

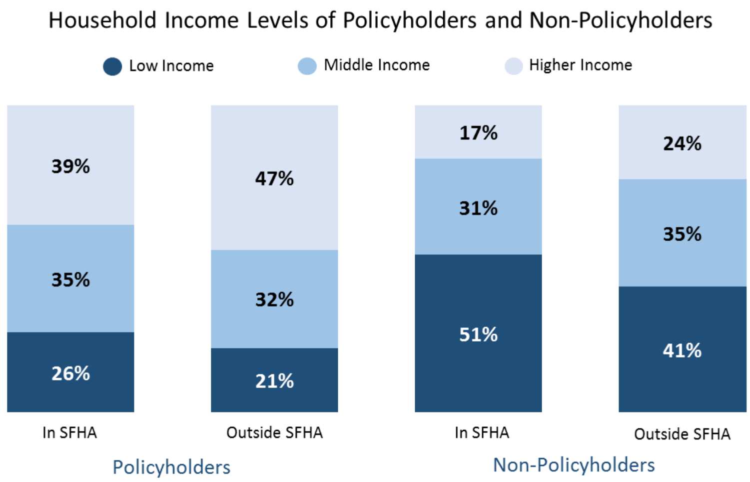
*FY 2017 component figures have been updated from *The Watermark* FY 2017 second quarter report. Flood Fund and Reserve Fund income and expense totals have not changed.

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 3 or June 30, 2018.



The Affordability Framework

In April of this year, FEMA released "*An Affordability Framework for the National Flood Insurance Program.*" The Framework provides the first ever data-driven analysis of policyholder and potential policyholder incomes by flood risk and home ownership status. FEMA used NFIP insurance policyholder data and matched it with U.S. Census' American Community Survey data to determine how incomes varied between policyholders and non-policyholders, inside and outside of the Special Flood Hazard Area (SFHA). This framework gives an idea of the scope of the affordability challenge faced by current and prospective policyholders.



FEMA estimates that there are just over 6 million residential structures in the SFHA, of which 2 million are currently insured by the NFIP. Of the remaining 4 million uninsured residential structures, half are low income households. The results of the research suggest that the vast majority of current NFIP residential policyholders do not meet traditional definitions of low income and may be reluctant rather than unable to pay for flood insurance. The true flood insurance affordability challenge lies with the low income, low home-value homeowner (or renter) in the SFHA. The framework suggests that both policyholders and non-policyholders with the lowest median incomes live in the highest hazard areas.

The Administration has submitted to Congress an affordability proposal which considers the findings and analysis of this Affordability Framework. While the NFIP is transforming to a more fiscally sustainable program with opportunities to enable the expansion of the private market for flood insurance, the Administration proposes that Congress should authorize the NFIP to establish a means-tested affordability program which allows low-income policyholders to maintain discounted rates. This proposal to make the program affordable for those who need it should be paired, pursuant to limits in current law, with accelerated premium increases for policyholders who are in a better financial position to pay risk-based rates.

Risk Rating and Policy Forms Redesign

Risk Rating and Policy Forms Redesign (RRR) is a cross-FIMA initiative to reflect industry best practices by delivering rates that leverage technology and data while creating simpler policy forms that provide more choice to policyholders. FIMA has made considerable progress in this endeavor and is working to develop the first set of new rates, to be announced in 2019.

The NFIP's new rating methodology will have several important upgrades. First, RRR will reflect and communicate the risk of local flooding by integrating commercial catastrophe data models and the outputs of Risk Mapping, Assessment, & Planning. This will allow rates to reflect a graduated view of risk instead of the "in or out" view used today. The risk will be communicated using characteristics policyholders can easily understand, like their distance to flooding source and their elevation. Second, the rates will reflect the structural characteristics that drive risk. One of the primary changes will use replacement cost values so that premiums will depend on what it costs to rebuild the house. Finally, RRR will utilize credible data that is easy to collect and an automated rating engine to streamline the underwriting and policy issuance process – all to provide a better customer experience.

The new rates will be implemented in stages, based on policyholder location and coverage type. The first segment of rates based on existing coverage options will apply to single family homeowners in coastal states between North Carolina and Texas starting on April 1st, 2020, with additional segments to follow.

RRR will help FIMA in achieving its moonshot goals of doubling policy coverage and increasing mitigation fourfold by 2022, and will ultimately help create a more "sound financial framework" for the National Flood Insurance Program.