2. Borrowing Authority -- Eliminates interest on future debt and decreases the NFIP's borrowing authority to two-thirds of total expected premiums in force in the following fiscal year.

Legislative text:

SEC. ___. BORROWING AUTHORITY

(a) Interest on Treasury Borrowing. –

(1) Section 15(e) of the Federal Flood Insurance Act of 1956 (42 U.S.C. 2414(e)) is amended by striking "Such notes or other obligations" through "issuance of such notes or other obligations" and inserting "Such notes or other obligations shall not bear any interest.".

(2) Section 1310A(a)(3) of the National Flood Insurance Act of 1968 (42 U.S.C. 4017(a)(3)) is amended by striking "(together with interest)".

(b) Reduced Borrowing Authority.—Section 1309 of the National Flood Insurance Act of 1968 (42 U.S.C. 4016) is amended by striking "(1) without the approval of the President, may not exceed $500,000,000, and (2) with the approval of the President, may not exceed $1,500,000,000 through the date specified in section 1319, and $1,000,000,000 thereafter; except that, through September 30, 2021, clause (2) of this sentence shall be applied by substituting "$30,425,000,000" for "1,500,000,000"" and inserting "may not exceed two-thirds (2/3) of total premiums collected in the prior fiscal year.".

(c) Cancellation.—Notwithstanding any other provision of law, including sections 1309, 1310, and 1310A of the National Flood Insurance Act of 1968 (42 U.S.C. 4016-4017a) and section 15(e) of the Federal Flood Insurance Act of 1956 (42 U.S.C. 2414(e)), and any borrowing agreement entered into between the Department of the Treasury and the Federal Emergency Management Agency, all indebtedness of the Administrator of the Federal Emergency Management Agency under any notes or other obligations issued pursuant to section 1309(a) of the National Flood Insurance Act of 1968 (42 U.S.C. 4016(a)) and section 15(e) of the Federal Insurance Act of 1956 (42 U.S.C. 2414(e)) that is outstanding as of the date of the enactment of this Act is hereby canceled. To the extent of the amount cancelled, the Administrator and the National Flood Insurance Fund are relieved of all liability to the Secretary of the Treasury under any such notes or other obligations, including for any interest due, including capitalized interest, and any other fees and charges payable in connection with such notes or other obligations.

(d) Treatment of Cancelled Debt.—The amount of the indebtedness canceled under subsection (c) may be treated as a public debt of the United States.

(e) Emergency spending.—

(1) Pay-go.—Subsection (b) is designated as an emergency pursuant to section 4(g) of the Statutory Pay-As-You-Go Act of 2010 (2 U.S.C. 933(g)).

(2) Balanced budget.— The amount provided in subsection (b) of this section is designated by the Congress as being for an emergency requirement pursuant to section 251(b)(2)(A)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985 (2 U.S.C. 901(b)(2)(A)(i)).

Analysis:

The National Flood Insurance Program (NFIP) has over $20 billion of debt that is beyond the ability of NFIP policyholders to repay. Canceling the NFIP's debt allows a clean slate for implementing a Sound Financial Framework, a plan for managing a 1-in-20 occurrence exceedance loss level.[1] Key points include:

i. The NFIP has been, on average, paying the U.S. Treasury over $400 million[2] of interest expenses annually, the third most important NFIP activity when valued by cost. From 2005 until present, the NFIP has paid over $5 billion of interest. In the next 10 years, the NFIP is projected to have paid nearly $4.2 billion solely for interest on the debt.

ii. Both the debt principal and the interest expenses have often been refinanced. Instead of paying down debt, the NFIP has no choice but to defer, at a steep cost, due to the NFIP's fiscal inability to pay down debt.

iii. The premiums policyholders pay into the NFIP is currently used to cover the interest on debt from previous losses dating back to claims from as far back as Hurricane Katrina, which occurred in 2005.

iv. Starting with the substantial debt associated with several national catastrophes, the NFIP's current debt is beyond the capacity of policyholders to repay. Cancelation of debt is the foundation of achieving a Sound Financial Framework – a framework from which the NFIP will have a greater probability to reach financial resiliency.[3] Without debt cancelation, there is a 2% percent chance the NFIP will have a net positive balance at the end of a projected 10-year period and at the mean, the NFIP is reasonably expected to accrue an additional $15 billion of net debt.[4]

This proposal would eliminate interest on future debt and decrease the NFIP's borrowing authority.

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[1] The 1-in-20 occurrence exceedance loss level is assumed to be on an occurrence basis, equal to approximately $10.5 billion. This loss level is based on the FEMA actuarial ensemble modeling of 5/31/2018 data and represents NFIP's 5% chance in a given year of meeting or exceeding losses of $10.5 billion from a single event. The 1-in-20 aggregate exceedance loss level is approximately $14 billion and represents NFIP's 5% chance of meeting or exceeding losses of $14 billion in a given year over all events. We recognize that the risk in identifying this 1-in-20 cap on an occurrence basis (currently $10.5 billion) is the possibility of numerous events occurring within the same year, all of which fall under the occurrence cap but with overall total losses for the year exceeding $10.5 billion.

[2] Current interest payments are just under $300 million due to the NFIP being able to refinance at lower rates.

[3] NFIP Financial Resilience is defined as at the end of a 10 year period: (1) there is a 75 percent chance of a positive balance in the NFIP's available funds (National Flood Insurance Fund (NFIF) and National Flood Insurance Reserve Fund (Reserve Fund)), without regard to interest; and (2) the balance in the NFIP's available funds (NFIF and Reserve Fund), without regard to interest, is on average equal to or greater than the starting balance at the beginning of the 10 year period. More detailed information and analysis can be found in the proposed provisions on Ensuring NFIP Claims Liquidity/Financial Resilience in the legislative proposal below for Establishing Financial Resilience (Proposal 3).

[4] Variation exists dependent upon flood activity where this result could be better or worse.

1) The proposal would revise the National Flood Insurance Act of 1968 so NFIP borrowing from the U.S. Treasury would not incur any interest.
2) The proposal would also revise the National Flood Insurance Act of 1968 so the NFIP's borrowing authority would be decreased from $30.425 billion to two-thirds (2/3) of total expected premiums in force in the following fiscal year.

Proposals 2 and 3, when implemented together, would authorize FEMA to establish a sound and transparent financial framework for the NFIP. This would enable the program to manage a flood event of a size that has only a 5% chance of being exceeded in any given year ("the 1-in-20 occurrence exceedance loss level") before requiring Congressional action on an emergency supplemental. FEMA estimates this is about a $10.5 billion event currently, approximately the size of Hurricane Harvey. These financial resilience reforms would allow the NFIP to quickly pay claims during catastrophic events, reduce the probability for future borrowing, and bring increased stability to the program. They would establish a promising and financially well-managed future for the NFIP while recognizing the ceiling to the program's capabilities. The key components of this strategy are the following:

- Setting an expectation that the NFIP has financial capacity to manage events up to the 1-in-20 occurrence exceedance loss level;
- Eliminating interest on current and future debt;
- Eliminating the Reserve Fund Ratio and Homeowner Flood Insurance Affordability Act surcharge;
- Directing annual equalization payments to cover the cost of Congressionally mandated premium discounts;
- Allowing the ability to transfer funds between the National Flood Insurance Fund and the Reserve Fund;
- Canceling the existing debt; and
- Recalibrating the borrowing authority to be consistent with the program's financial capabilities for repayment.

Demarcating the 1-in-20 occurrence exceedance loss level (currently at $10.5 billion) will define the ceiling on events the NFIP is likely capable of financially responding to under this structure. Each of the above components is necessary for FEMA to have 75% confidence that the NFIP can manage flood events under that ceiling without requesting further action from Congress.

Comparative type:

Federal Flood Insurance Act of 1956

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SEC. 15. Issuance of notes by Administrator of Federal Emergency Management Agency; terms and conditions. (42 U.S.C. 2414)

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(e) Issuance of notes by Administrator of Federal Emergency Management Agency; form, terms and conditions; purchase and sale by Secretary of the Treasury; public debt transactions. The Administrator of the Federal Emergency Management Agency is authorized to issue to the Secretary of the Treasury from time to time and have outstanding at any one time, in an amount not exceeding $500,000,000 (or such greater amount as may be approved by the President) notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions as may be prescribed by the Administrator of the Federal Emergency Management Agency with the approval of the Secretary of the Treasury. ~~Such notes or other obligations shall bear interest at a rate~~

~~determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of such notes or other obligations.~~ Such notes or other obligations shall not bear any interest. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations to be issued under this subsection and for such purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under chapter 31 of title 31, and the purposes for which securities may be issued under such chapter are extended to include any purchases of such notes and obligations.

The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States.

National Flood Insurance Act of 1968

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SEC. 1309. Financing. (42 U.S.C. 4016)

(a) Authority to issue notes and other obligations
All authority which was vested in the Housing and Home Finance Administrator by virtue of section 2414(e) of this title (pertaining to the issue of notes or other obligations to the Secretary of the Treasury), as amended by subsections (a) and (b) of section 1303 of this Act, shall be available to the Administrator for the purpose of carrying out the flood insurance program under this chapter; except that the total amount of notes and obligations which may be issued by the Administrator pursuant to such authority ~~(1) without the approval of the President, may not exceed $500,000,000, and (2) with the approval of the President, may not exceed $1,500,000,000 through the date specified in section 1319 of this title, and $1,000,000,000 thereafter; except that, through September 30, 2021, clause (2) of this sentence shall be applied by substituting "$30,425,000,000" for "$1,500,000,000"~~ may not exceed two-thirds (2/3) of total premiums collected in the prior fiscal year. The Administrator shall report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate at any time when he requests the approval of the President in accordance with the preceding sentence.

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SEC. 1310A. National Flood Insurance Fund. (42 U.S.C. 4017a)

(a) Establishment; availability
To carry out the flood insurance program authorized by this chapter, the Administrator shall establish in the Treasury of the United States a National Flood Insurance Fund (hereinafter referred to as the "fund") which shall be an account separate from any other accounts or funds available to the Administrator and shall be available as described in subsection (f), without fiscal year limitation (except as otherwise provided in this section)-

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(3) to repay to the Secretary of the Treasury such sums as may be borrowed from him ~~(together with interest)~~ in accordance with the authority provided in section 4016 of this title;

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