

What Happens If the National Flood Insurance Program (NFIP) Lapses?

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This Insight provides a short overview of what would happen if the [National Flood Insurance Program \(NFIP\)](#) were not to be reauthorized by September 30, 2023, and allowed to lapse.

Expiration of Certain NFIP Authorities

The NFIP is authorized by the National Flood Insurance Act of 1968 (Title XIII of P.L. 90-448, as amended, [42 U.S.C. §§4001 et seq.](#)). The NFIP does not contain a single comprehensive expiration, termination, or sunset provision for the whole of the program. Rather, the NFIP has multiple different legal provisions that tie to the expiration of key components of the program.

Since the end of FY2017, 25 short-term NFIP reauthorizations have been enacted, which are listed in **Table 1**. The NFIP is currently authorized until September 30, 2023.

Unless reauthorized or amended by Congress, the following will occur on September 30, 2023:

- The [authority to provide new flood insurance contracts will expire](#). Flood insurance contracts entered into before the expiration would continue until the end of their policy term of one year.
- The authority for NFIP to borrow funds from the Treasury will be [reduced from \\$30.425 billion to \\$1 billion](#).

Other activities of the program would technically remain authorized, such as the issuance of [Flood Mitigation Assistance Grants](#). However, the expiration of the key authorities listed above would have potentially significant impacts on the remaining NFIP activities.

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Table I. Short-term Extensions of the NFIP Since End of FY2017

Public Law	Date To Which Authorization Was Extended
P.L. 115-56	December 8, 2017
P.L. 115-90	December 22, 2017
P.L. 115-96	January 19, 2018
NFIP lapsed January 20 to January 22, 2018	
P.L. 115-120	February 8, 2018
NFIP lapsed for 8 hours on February 9, 2018	
P.L. 115-123	March 23, 2018
P.L. 115-141	July 31, 2018
P.L. 115-225	November 30, 2018
P.L. 115-281	December 7, 2018
P.L. 115-298	December 21, 2018
P.L. 115-396	May 31, 2019
P.L. 116-19	June 14, 2019
P.L. 116-20	September 30, 2019
P.L. 116-59	November 21, 2019
P.L. 116-69	December 20, 2019
P.L. 116-94	September 30, 2020
P.L. 116-159	September 30, 2021
P.L. 117-43	December 3, 2021
P.L. 117-70	February 18, 2022
P.L. 117-86	March 11, 2022
P.L. 117-95	March 15, 2022
P.L. 117-103	September 30, 2022
P.L. 117-180	December 16, 2022
P.L. 117-229	December 23, 2022
P.L. 117-264	December 30, 2022
P.L. 117-328	September 30, 2023

Source: CRS analysis of legislation.

If there were to be a lapse in authorization on or after September 30, 2023, and the borrowing authority is reduced to \$1 billion, FEMA would continue to adjust and pay claims as premium dollars come into the [National Flood Insurance Fund](#) (NFIF) and [reserve fund](#). As of December 7, 2022, there was \$3.61 billion in the NFIF and \$2.44 billion in the reserve fund. If the funds available to pay claims were to be depleted, claims would have to wait until sufficient premiums were received to pay them unless Congress were to appropriate supplemental funds to the NFIP to pay claims or increase the borrowing limit.

The NFIP is the primary source of flood insurance coverage for residential properties in the United States. The NFIP has nearly 5 million flood insurance policies providing over \$1.3 trillion in coverage, with 22,534 communities in 56 states and jurisdictions participating. The program collects about \$4.6 billion in annual premium revenue and fees.

The [cancellation of \\$16 billion of NFIP debt](#) in November 2017 (P.L. 115-72) had no effect on NFIP authorization. Reauthorization of the NFIP has no impact on the implementation of [Risk Rating 2.0](#).

The Mandatory Purchase Requirement

The expiration of the NFIP's authority to provide new flood insurance contracts has potentially significant implications due to the [mandatory purchase requirement](#) (MPR). By [law](#) or regulation, federal agencies, federally regulated lending institutions, and government-sponsored enterprises must require certain property owners to purchase flood insurance as a condition of any mortgage that these entities make, guarantee, or purchase. Property owners, both residential and commercial, are required to purchase flood insurance if their property is identified as being in a [Special Flood Hazard Area](#) (SFHA, which is equivalent to having an estimated 1% or greater risk of flooding every year) and is in a community that participates in the NFIP. Without available flood insurance, real estate transactions in an SFHA potentially would be significantly hampered.

Federal agencies may accept private flood insurance to fulfill the MPR if the [private flood insurance meets the conditions defined in statute](#). Although the private flood insurance market is growing, the MPR is still generally met through NFIP coverage. FEMA does not enforce the MPR, but lenders must continue their regulatory requirements during a lapse, including MPR enforcement.

Past Lapses of the NFIP

The NFIP was extended 17 times between 2008 and 2012, and lapsed 4 times: March 1 to March 2, 2010; March 29 to April 15, 2010; June 1 to July 2, 2010; and October 1 to October 5, 2011. In most cases when the NFIP lapsed, [Congress reauthorized the NFIP retroactively](#). In 2018, P.L. 115-120 also authorized FEMA to honor all policy-related transactions accepted during the NFIP lapse. During these NFIP lapses, the FDIC issued [guidance to lending institutions](#), and the Federal Reserve also issued [informal guidance to lenders](#). In addition, [FEMA provided guidance](#) for the [Write-Your-Own \(WYO\) Program](#), where private insurance companies are paid to write and service NFIP policies.

In past NFIP lapses, borrowers were not able to obtain flood insurance to close, renew, or increase loans secured by property in an SFHA until the NFIP was reauthorized. During the lapse in June 2010, estimates suggest [over 1,400 home sale closings were canceled or delayed each day](#), representing over 40,000 sales per month. These figures applied to residential properties, but commercial properties were also affected by the NFIP lapse. In addition, [the largest WYO insurer left the NFIP in 2011](#), reportedly because of the administrative burden associated with very short-term reauthorizations and lapses in authorization. Although no detailed analysis of the NFIP lapses in 2010-2011 has been undertaken, the economic impact could have been broader than the reported effects on the domestic real estate market.

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