

BASIS OF ESTIMATE

Through the NFIP, FEMA offers flood insurance in communities that conform to the program's standards. Under current law, if premiums and interest income are insufficient to cover the program's costs, FEMA can borrow up to \$3.5 billion from the U.S. Treasury. H.R. 4133 would increase the limit on FEMA's borrowing authority by \$5 billion. Based on information from FEMA about the likely need to pay claims in response to recent hurricanes and the historical rate of claims processing for major floods, CBO estimates that the agency would exercise that authority in 2006, resulting in an increase in direct spending of \$5 billion in that year.

Current law requires FEMA to repay any borrowed funds (with interest) as it collects premiums, provided that the program's costs are fully covered; however, CBO expects that the agency would be unlikely to repay funds borrowed under H.R. 4133 within the next 10 years. Assuming that NFIP premiums total about \$2 billion a year and that losses in future years will be in line with the historical average (excluding losses from recent catastrophic hurricanes), CBO expects that repayments of borrowed funds to the Treasury would total about \$400 million annually, once claims from the recent hurricanes are fully paid.

According to FEMA, the agency currently estimates that total claims from Hurricane Katrina and Hurricane Rita will total about \$23 billion—significantly more than the total resources that would be available to FEMA under H.R. 4133. Assuming actual costs are in line with that estimate, CBO expects it would take FEMA many years to finance outstanding claims from those hurricanes using annual income from premiums and that repayments of borrowed funds would not occur until after 2015.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4133 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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