



## **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 \$1.5 billion from the U.S. Treasury. H.R. 3669 increases the limit on FEMA's borrowing authority by \$2 billion. Based on information from FEMA about the likely need to pay claims in response to Hurricane Katrina and the historical rate of claims processing for major floods, CBO estimates that the agency will exercise that authority in 2006, resulting in an increase in direct spending of \$2 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. 3669 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 Hurricane Katrina), CBO expects that repayments of borrowed funds to the Treasury would total about \$400 million annually, once claims from Hurricane Katrina are fully paid. At this time, CBO does not have sufficient information to estimate the total amount of those claims, but we expect that they will exceed the total resources that will be available to FEMA under H.R. 3669. We also expect that it would take FEMA several years to finance outstanding claims for Hurricane Katrina using annual income from premiums and that repayments of borrowed funds would not occur until after 2015.

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