The Watermark

FEDERAL INSURANCE & MITIGATION ADMINISTRATION

Fiscal Year 2018, Fourth Quarter
Volume 4

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

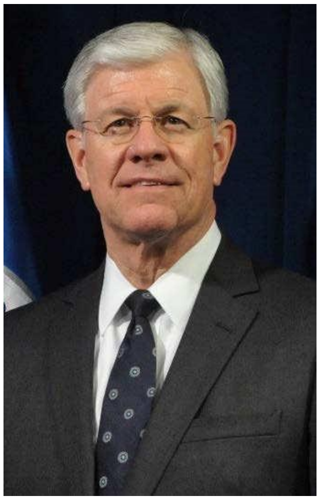
This edition of the Watermark chronicles four volumes of the Watermark and the end of fiscal year (FY) 2018. FY18 challenged us: we started FY18 supporting response and recovery efforts for one of the costliest hurricane seasons and wildfires in California on record. We rallied to deliver over $10 billion in flood insurance claim payments to survivors through extraordinary efforts with Write-Your-Own (WYO) company agents, independent agents, and adjuster workforces to assure customer and survivor-centric service with the claims and payment process. We ended FY18 akin to how it began, by supporting insured survivors of new flood events.

As the Federal Insurance and Mitigation Administration (FIMA) moves into FY19, we maintain our long-term objectives to be a catalyst driving increased understanding and proactive action to help people in communities reduce their losses from natural disaster. Floods remain the nation's most common natural disaster. Doubling flooding insurance coverage and increasing investment in mitigation by four times by 2022 are both ambitious and necessary for the United States. FIMA's goals, our moonshots, which are highlighted on the back page of this edition, are an essential piece of FEMA's strategic plan that strives for less disaster suffering.

FIMA also continues to embrace the spirit of flood insurance coverage itself: FIMA has continued to engage the reinsurance and capital markets as a tool to help strengthen the financial framework of the National Flood Insurance Program (NFIP). Whether a catastrophic flood event happens in a given year, purchasing reinsurance proactively transfers NFIP risk to the private sector and aims to improve FEMA's financial security. More information on the NFIP's mid-year capital markets placement is available on the back page of this report.

Still, significant challenges remain. In September 2018 the NFIP made a $195 million interest payment to the Treasury, more than enough to cover a significant flood event and help thousands of Americans recover more quickly and fully. FIMA continues to pay interest on debt from previous catastrophic events, which is well beyond the capacity of the program to repay.

The upcoming year promises numerous opportunities to reduce disaster suffering and increase the number of insured Americans. FIMA remains committed to those long-term recovery efforts to ensure that we are more resilient as a result of building back higher and stronger. FIMA and the NFIP continue to serve as a fundamental linchpin in delivering FEMA's mission: helping people before, during, and after disasters.



Sincerely,

David I. Maurstad
Deputy Associate Administrator for
Insurance and Mitigation

NFIP KEY FIGURES

$1.3 trillion
Insurance in Force

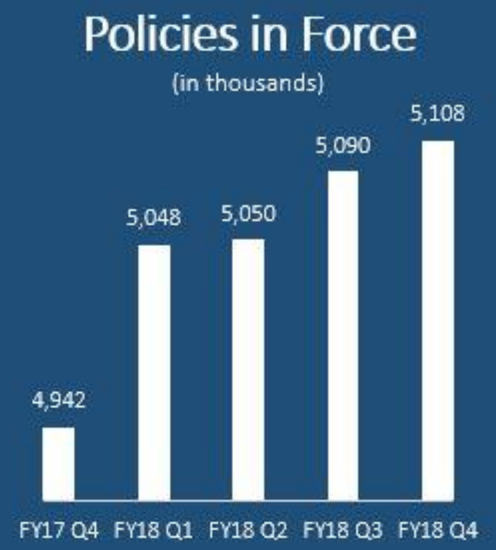
Over $40 billion
Probable Maximum Annual Loss (PML)

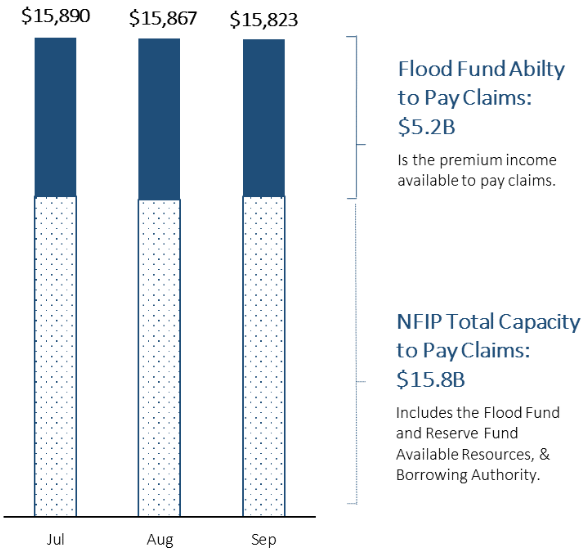
22,324
Participating Communities

$699
Average Annual Premium
(Incl. Premium & Federal Policy Fee)

$20.5 billion
Outstanding Debt with Treasury

$4.2 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)*	Jun 30, 2018	**Sep 30, 2018**
Flood Fund Balance	5,948,223	**6,015,134**
Outstanding Obligations	(698,055)	**(808,522)**
Flood Fund Available Resources	5,250,168	**5,206,612**
Reserve Fund Balance	0	**165,471**
Net Investments	644,535	**725,677**
Outstanding Obligations	0	**(174,890)**
Reserve Fund Available Resources	644,535	**716,258**
Remaining Borrowing Authority	9,900,000	**9,900,000**
NFIP Total Capacity to Pay Claims *	15,794,703	**15,822,870**

* FEMA's reinsurance placements augment the NFIP's Capacity to Pay Claims. After losses for a single event exceed $4B, the NFIP may collect up to $1.96B, meaning the Capacity to Pay Claims would be $17.783B.

STATEMENT OF OPERATIONS

($ in Thousands)

NATIONAL FLOOD INSURANCE FUND

REVENUE	FY 2017	**FY 2018 Q4**	FY 2018
Premium	3,012,988	**947,185**	3,513,334
Reinsurance	0	**0**	1,042,000
Federal Policy Fee	194,653	**50,488**	188,162
Other Revenue	13,938	**8,443**	19,677
Total Flood Fund Revenue	3,221,578	**1,006,115**	4,763,174

EXPENSES	FY 2017	**FY 2018 Q4**	FY 2018
Total Loss & Loss Adjustment (Claims)	3,165,796	**271,271**	9,207,241
Commissions	62,055	**12,415**	55,472
WriteYourOwn (WYO) Expense Allowance	920,488	**294,389**	953,462
Interest Paid on Debt	393,761	**194,594**	367,642
Floodplain Management & Mapping Activities	150,847	**124,350**	225,728
Flood Related Grant Activities	208,585	**75,495**	104,486
Other Expenses	345,584	**76,355**	493,875
Total Flood Fund Expenses	5,247,116	**1,048,868**	11,407,907
FLOOD FUND NET INCOME (LOSS)*	(2,025,538)	**(42,753)**	(6,644,733)

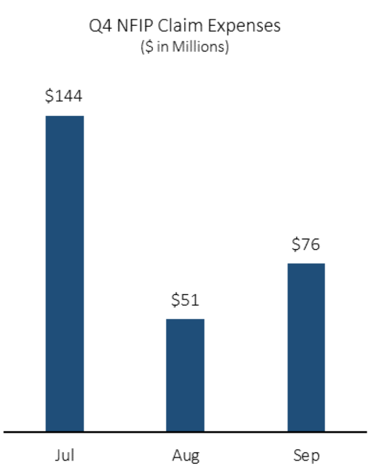
NATIONAL FLOOD INSURANCE RESERVE FUND

REVENUE	FY 2017	**FY 2018 Q4**	FY 2018
Assessment	484,726	**148,302**	496,820
Surcharge	395,596	**109,090**	382,707
Premium Redemption & Interest	132,157	**(1,046)**	(892)
Total Reserve Fund Revenue	1,012,480	**256,347**	878,635

EXPENSES	FY 2017	**FY 2018 Q4**	FY 2018
Loss & Loss Adjustment (Claims)	1,502,359	**0**	495,979
Reinsurance	150,048	**188,882**	423,511
Total Reserve Fund Expenses	1,652,407	**188,882**	919,490
RESERVE FUND NET INCOME (LOSS)	(639,927)	**67,465**	(40,855)

* The combination of Total Revenue and Total Expenses contribute to the Net Income or Net Losses for the NFIP. Because of the NFIP's current structure of premium discounts, interest expenses on debt, and loss concentrations, Net Losses are expected.

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 4 or September 30, 2018.



Moonshots

In 2017, FEMA set two moonshot goals for 2022: to double the number of structures covered by flood insurance, and to increase investment in mitigation by four times. FEMA's moonshots promote activities across the nation that can save lives and help reduce both the risks and the costs associated with catastrophic events.

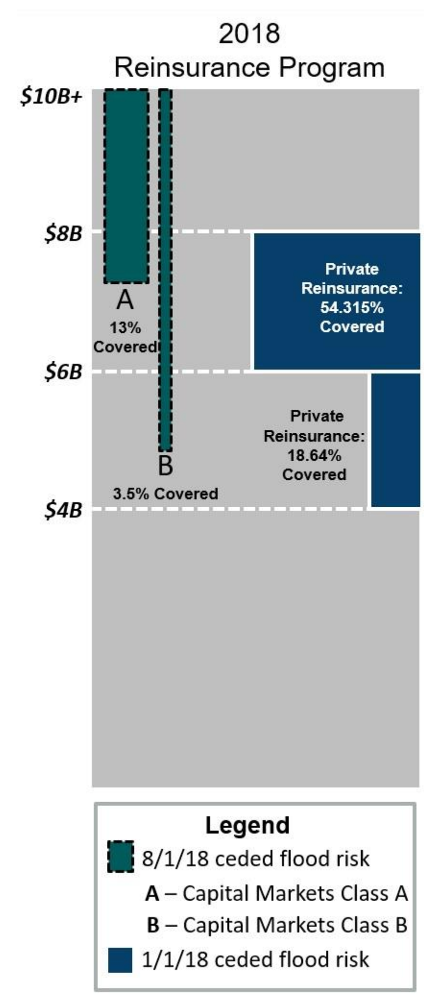
The rationale for doubling the number of structures covered by flood insurance is simple: experience shows repeatedly that individuals, communities, and businesses that manage risk through insurance recover faster and more fully after a disaster. Annually, flooding is the nation's costliest natural hazard. Through these moonshots, FEMA is committed to better educate and raise awareness with the public on the risks of flooding, and to work closely with the insurance industry, realtors, mortgage lenders, community leaders, and Congress to increase insurance purchases. Furthermore, FEMA is working to transform the NFIP into a simpler, customer-focused insurance program that provides policyholders with ease of access and additional value. Insurance not only benefits those directly affected by a disaster, it also reduces the need for federal disaster assistance and lowers costs for American taxpayers.

FEMA can also reduce disaster costs at all levels by increasing investment in mitigation – investment into smart infrastructure before a disaster occurs. According to an independent study conducted by the National Institute of Building Sciences Multi-Hazard Mitigation Council, mitigation grants funded through selected federal government agencies can save the nation, on average, $6 dollars in future disaster costs for every dollar spent on hazard mitigation. FEMA is aiming to the moon for the future and for the nation: to increase investment in mitigation by four times.

As defined, mitigation investment is an expenditure of resources to engage in risk management actions to avoid property damage, reduce loss of life, or transfer natural hazard risks before a disaster strikes. As a start, the FEMA mitigation benchmark is less than $1 billion of current investment. By advancing strategic partnerships with federal, state, local, tribal, and territorial governments, private sector entities, and philanthropists, FEMA can lead the way to advance mitigation investments nationally. Mitigation saves lives and reduces damages to property and the environment. Mitigation equals less financial suffering.

Mid-Year Capital Markets Reinsurance Placement

FEMA continues to engage reinsurance markets as one tool to build a sound financial framework for the NFIP. During most years, NFIP policyholder premium revenue and fund balances are sufficient to pay for NFIP flood losses. However, the NFIP is not designed to pay for catastrophic events like Hurricane Harvey (2017) or Hurricane Sandy (2012) without additional financial assistance.



To complement the NFIP's existing traditional reinsurance coverage of $1.46 billion during calendar year 2018, FEMA recently completed an additional reinsurance placement. For the first time, this transaction secures reinsurance coverage from the capital markets. With reinsurance backed by the capital markets – also known as insurance-linked securities (ILS) – investors put their money at risk in exchange for interest payments. FEMA's August 2018 placement involves a form of ILS, known as a 144A catastrophe bond. By engaging both the traditional reinsurance markets and the capital markets, the NFIP can reduce risk transfer costs, access greater market capacity, and further diversify its reinsurance partners.

Effective August 1, 2018, for a period of three years, this placement transfers $500 million in NFIP flood risk to capital markets investors. FEMA will pay $62 million in premium for the first year of reinsurance coverage. The agreement is structured to cover, for a given flood event, 3.5 percent of losses between $5 billion and $10 billion, and 13 percent of losses between $7.5 billion and $10 billion – both shown in dark green and marked A and B in the figure to the right. For the 2018 hurricane season, combined with the January 2018 traditional reinsurance placement (which is shown in dark blue), FEMA transferred $1.96 billion of the NFIP's flood risk to the private sector. If a catastrophic flood event had triggered the reinsurance placements, the NFIP would have had an additional source to fund payment of flood insurance claims.

FEMA is committed to further developing and maturing the NFIP Reinsurance Program in a manner that helps strengthen the financial framework of the NFIP, is beneficial to policyholders and taxpayers, and expands the role of the private markets in managing U.S. flood risk.