GOVERNMENT SHUTDOWN – IMPACT ON THE NFIP

Government shutdown – the hot topic on every newscast and in every major political article. We hear about it how it affects certain government employees and agencies, but what does this mean for lenders and bankers? You may be alarmed by the answer.

Fact: the NFIP (National Flood Insurance Program) is currently not permitted by law to sell or renew existing flood insurance coverage since the official government shutdown on September 30, 2025.

Question: Why should this important fact be on your radar?

Answer: The government shutdown essentially cripples the NFIP's ability to borrow from the Department of Treasury, from $30 Billion to a mere $1 Billion. To make matters more complicated, the NFIP currently owes $22 Billion to the government and only has $1.14 Billion in reserves to pay out any claims until funding is restored.

To say this could have a significant impact would be an understatement, especially during hurricane season. Destructive flooding could be looming on the horizon. One major storm and the NFIP depletes its $1.14 Billion in reserves. This should be on the front of every lender and banker's mind.

Additionally, how does the government shutdown affect renewals?

The Good News: Existing NFIP policies remain in effect until their expiration date (plus a 30-day grace period). Claims will only be paid if FEMA's existing funds remain available – and that is subject to two things:

1. If the application is received prior to a lapse
2. And the premium is received within the 30-day grace period

The Concerning News: Any additional flood insurance policy renewals must await reauthorization of NFIP funding from Congress. That means until the government is back to business, the NFIP is stalled. Agents can only provide informational premium quotes for coverage (not binding) that are subject to change.

How about new originations, or purchase transactions?

Similarly, if the NFIP policy was issued by 09/30/2025 and full payment is made within 10 days by the Borrower, or 30 days if through escrow, you are ok. If not, and your closing is coming up, you have the same lack of flood insurance as above, and the lender needs to understand the risk being taken by proceeding with the transaction.

The Good News: If you are able to get a Private Flood Policy, you are in the clear.

In a nutshell, this lapse in funding could significantly impact the NFIP's ability to provide flood insurance.

It is important to note that during an NFIP hiatus like the current one, lenders may continue to make loans normally subject to FDPA (designated loans) without the mandatory flood insurance coverage, subject to several factors (i.e., credit evaluation, soundness controls, legal risks, etc.). During a hiatus, lenders are required to make flood determinations and provide timely and accurate notices to borrowers.

They must also think ahead. Lenders must have a system in place to obtain and document the appropriate flood insurance coverage as soon as available once the NFIP can reauthorize all Designated Loans.

A Harsh Reality: Retroactive coverage remains to be decided by Congress.

Yes, you read that right. It remains to be seen if reauthorization will be granted retroactively, meaning that there could be a significant gap in coverage remaining after the government shutdown.

If the government does proceed with retroactive reauthorization, insurers can rest easily with the ability to issue policies effective as of the date they receive payments (subject to applicable waiting periods) and claims for covered losses can be processed and paid, subject to the provisions of the SFIP. A lot of unknowns – from gap coverages to a funding crisis – lay in wait. It is vital for lenders and bankers to have a strong plan and understand the implications, the ins and outs of what a government shutdown really means for the NFIP and those affected.

A few resources to consider if you are a lender:

Federal Reserve: NFIP Press Release
Congress: NFIP Lapse
Congress: H.R. 1968

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