

## Additional Republican Views on H.R. 3212, "Flood Insurance Reform and Modernization Act of 2007"

It is the view of the Republican Minority that the National Flood Insurance Program (NFIP) should be reformed and be made more actuarially sound before embarking on a massive expansion into the wind insurance business. While H.R. 3121, the 'Flood Insurance Reform and Modernization Act of 2007' calls for several crucial reforms-including a phase-in of actuarially determined rates for some subsidized property owners-it also requires the NFIP to make wind coverage available to anyone purchasing flood insurance from the Federal government, in the form of a 'multiple-peril' policy. The NFIP currently owes the Department of the Treasury around \$18 billion, an amount it was forced to borrow to pay claims from the 2005 hurricane season. By its own account, it will likely never be able to repay this sum. The Minority believes that although Congress should continue to examine ways to encourage better access to homeowners' wind insurance, it would be ill-advised to force the NFIP to take on this new risk, as it could expose taxpayers to further loss and could unnecessarily interfere with the functioning of the private wind insurance market.

H.R. 3121 and other catastrophe insurance proposals before the Committee seek to address, through Federal participation, a phenomenon of rising insurance costs in coastal areas at high risk of suffering hurricanes and other storms. Higher insurance prices can often be traced to a few causes, including increased risk (based on more frequent hurricanes, higher home values, and increased construction in coastal areas), hostile regulatory and legal climates, and temporary rate spikes following major catastrophes, when insurers remodel risk, rebuild surplus, and diversify exposure. H.R. 3121 would likely not address any of these factors, and while it may provide slightly more availability in the short-term, it could ultimately displace the private market in some regions, leading to fewer choices for consumers. Although it is questionable whether FEMA would be able to carry out this mandate, the NFIP multiple-peril product would be offered at 'actuarial' rates, placing the coverage out of reach for the very constituents this bill is designed to help.

At the July 17, 2007 legislative hearing on H.R. 3121, flood management groups, industry experts, the NAIC, environmental organizations, Treasury, and FEMA expressed concern over expanding the NFIP to include wind risks. These witnesses raised several questions about how the multiple-peril program would be implemented and administered, including how the new NFIP multiple-peril coverage would be priced, and how the NFIP would maintain actuarial soundness. The panel also expressed concern over the possibility that this bill could displace the private market, which generally offers wind coverage in most homeowners' insurance policies. Instead, the panel called for a comprehensive study addressing several issues, including determining what effects this massive expansion could have on the current program, how it would impact the availability and affordability of wind insurance, and how the NFIP would implement this mandate.

In a June 2007 report, the Congressional Budget Office (CBO) reported that 47 percent of subsidized non-primary coastal homes and 37 percent of subsidized primary residences are worth at least \$500,000. Further, close to 90 percent of the NFIP's Severe Repetitive Loss Properties (SRLPs) currently enjoy subsidized rates.

The Republican Minority believes that the chief objective of the Committee and the Congress should be reform of the existing NFIP, including the removal of subsidies over time to improve the long-term solvency of the program. In contrast, H.R. 3121 would dramatically increase the scope of the NFIP, at a time when the Government Accountability Office (GAO) includes the program on its 'High Risk' Series list, recommending increased oversight by Congress. While the Minority supports the vast majority of the provisions in H.R. 3121--which are similar to the bipartisan flood insurance

reform bill introduced earlier this year (H.R. 1682), and the bipartisan bill that overwhelmingly passed the House last Congress (H.R. 4973)--the inclusion of wind coverage would likely exacerbate the NFIP's administrative problems.

At the Committee's markup of H.R. 3121 Rep. Ginny Brown-Waite (FL), along with Reps. Adam Putnam (FL) and Tom Feeney (FL), offered an amendment that would strike the mandate in H.R. 3121 requiring the NFIP to offer wind insurance and would replace it with a comprehensive GAO study. Unfortunately, the Majority rejected this common-sense amendment, which would require the GAO to examine a number of factors relating to the multiple-peril program proposed in H.R. 3121, including, among other things:

The ability of the NFIP to timely implement an actuarially-sound wind insurance program;

The effects the expansion into wind insurance could have on flood insurance reform, including map modernization, and the phase-in of actuarial rates;

Whether an expansion of the NFIP to include wind coverage could affect the availability and affordability of such coverage, influence the private-sector development of multiple-peril products, or result in adverse selection;

Any potential taxpayer exposure the new program could pose, similar to the deficit resulting from the 2005 hurricane season;

Available alternative methods that could offer policyholders more options for wind coverage; and

Coverage gaps that would remain under most homeowners policies.

Although this amendment was not accepted, a bipartisan study request letter has been transmitted to the GAO, requiring it to conduct a study on the issues outlined above. The Minority strongly urges the Committee to closely examine any GAO findings and recommendations resulting from this study and to seriously consider implementing them.

Several other Republican amendments were adopted at Committee markup. Rep. Randy Neugebauer (TX) offered an amendment to require FEMA to study and report on the impact, effectiveness, and feasibility of including widely used building codes as part of the NFIP's floodplain management criteria. The Committee also accepted an amendment by Rep. Richard Baker (LA) that would delay the implementation of Section 7, which creates the NFIP multiple-peril product, until June 30, 2008, so that the GAO can study the impact of this provision, in accordance with the bipartisan request. An amendment by Rep. Jeb Hensarling (TX) was approved that would require FEMA to report to Congress regarding how it plans to repay, within 10 years, its debt to Treasury. Rep. Tom Price (GA) offered an amendment to eliminate the requirement that an additional, one-page description of the NFIP coverage be distributed to policyholders, instead

requiring the more comprehensive supplemental forms already mandated by the Bunning-Bereuter Blumenauer Flood Insurance Reform Act of 2004. Finally, Rep. Patrick McHenry (NC) offered an amendment that would suspend FEMA's ability to offer new multiple-peril policies if the NFIP is forced to borrow from the Treasury to pay multiple-peril claims.

Despite these improvements and the continuing need for flood insurance reform, nearly all Committee Republicans were unable to support this legislation, because of the significant new taxpayer liabilities it creates. The Eastern Seaboard and Gulf Coast contain more than \$19 trillion of insured value. Shifting even a portion of this risk to the troubled NFIP could expose taxpayers to massive losses. H.R. 3121 could also result in significant adverse selection for the multiple-peril program. Because wind is a standard component of homeowners insurance, the risk from a government-backed wind product would likely be concentrated in regions where wind coverage is the most difficult to obtain in the private market. Another large hurricane or storm in the Gulf region that causes both flood and wind losses could bankrupt the NFIP by several times its current insolvency. The Minority believes that, at the very least, this proposal, as well as others, should be thoroughly studied before being authorized by Congress. In addition to a GAO study, Committee Republicans support efforts by the Senate Banking Committee to create an independent natural catastrophe insurance commission to study and report on legislative and regulatory changes to improve the availability and competitiveness of disaster insurance.

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