

February 24, 2010

Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Frank and Ranking Member Bachus:

We understand that H.R. 2555, the Homeowners' Defense Act, will be heard in the House Financial Services Committee next month. As a coalition of leading environmental groups, taxpayer organizations and insurance interests, we strongly oppose H.R. 2555. If enacted, the Homeowners' Defense Act would cost taxpayers billions of dollars, discourage the insurance and reinsurance private market, and result in incentives to build in unsafe and environmentally fragile areas.

H.R. 2555, introduced by Representative Ron Klein of Florida on May 21, 2009, creates a federal bailout program principally designed to benefit hurricane-threatened Florida at the expense of taxpayers in all 50 states. The legislation supports a Florida system that is based on artificially low premiums. Such a system encourages risky development behavior. It is a cost the federal government and taxpayers cannot afford.

H.R. 2555 consists of three major components: (1) a federally facilitated consortium of states to pool their natural catastrophe risks, (2) federal reinsurance for state natural catastrophe funds, and (3) federal guarantees of bonds issued by state funds. All three of these components are problematic. Federal reinsurance and federal guarantees used in this way shift resources from all 50 states to benefit a single state—a state that could fix its insurance problems without federal intervention. And while the consortium approach would not significantly burden taxpayers, it is a fatally flawed concept. States can already create pools for insurance. States have not done so, however, because low-risk states and their taxpayers do not want to subsidize high-risk states and their homeowners.

We understand the significant risks that Florida faces as a result of natural disasters. We agree that all US residents, including Floridians, should have access to adequate insurance so they can responsibly rebuild after a storm. We oppose, however, any effort to shift the costs of insuring Florida residents to taxpayers across the United States. The state of Florida has established a public insurance system instead of relying on the private sector. This public system is deeply flawed. Unlike private insurance and reinsurance, which maintain proper liquidity and reserves to pay claims, Florida's state insurance and reinsurance funds are severely under-capitalized and will not be able to pay claims in the event of a large hurricane.

The state of Florida is well aware that its public insurance system is flawed—under the state program, Citizens Property Insurance Corporation, homeowners who live on the coast pay only a

fraction of actuarial rates. These subsidies are not means tested—affluent homeowners with beachfront property are being subsidized by those who live in less risky, and in some cases less wealthy, areas of the state. While Florida could make changes to ensure its system is on solid financial footing, including purchasing reinsurance or floating catastrophe bonds in the private market, the state has chosen to continue its under-capitalized system in hopes that the federal government, and all taxpayers, will bail them out.

We strongly believe that Florida has made the wrong choice in seeking a federal bailout instead of looking to the private market. Private reinsurance and capital markets are robustly assuming catastrophe risk, while federal insurance programs struggle to deliver on their commitments. The private insurance sector has met its obligations arising from recent disasters, including Hurricanes Katrina, Rita, Wilma, Ike and Gustav, thus ensuring that families across devastated areas were quickly able to rebuild and re-start their lives. This is in stark contrast to federal programs, such as the National Flood Insurance Program, which is now more than \$20 billion in debt in large part due to inadequate rates. When rates are disconnected from risk, more development occurs in flood prone areas, which increases insured and economic losses caused by hurricanes. Further, this inappropriate development puts individuals in harm's way and threatens lives. In short, such action perpetuates and exaggerates the problem and does nothing to solve it.

In addition to shifting significant costs onto federal taxpayers, a fundamentally unfair and, in this era of spiraling federal deficits, a fiscally irresponsible request, H.R. 2555 encourages development in unsafe and environmentally fragile areas. While we agree that there may be actions that need to be taken to help lower-income families afford insurance when they already live in harm's way, subsidizing development in environmentally sensitive areas primarily benefits those who least need assistance. Encouraging this development directly harms this nation's residents and communities by eroding our natural barriers to storms and their impact.

We strongly believe that instead of acting favorably on the fundamentally misguided and fiscally irresponsible Homeowners' Defense Act, the Financial Services Committee should focus its natural catastrophe efforts on smart mitigation legislation that helps property owners—particularly lower and moderate income families—make their homes safer. Federal efforts to strengthen state-level mitigation programs will better protect those living in at-risk areas and it gets at the root of the problem. The Klein legislation, on the other hand, does nothing to solve the underlying issues. Instead, it would create a system that perpetuates a flawed and costly approach.

H.R. 3026, the Hazard Mitigation for All Act, for example, was introduced by Representative Bennie Thompson of Mississippi last year and was referred to the Financial Services Committee. H.R. 3026 recognizes that public housing, Section 8 rental units, and publicly-assisted housing all would benefit from comprehensive retrofit mitigation projects to harden them against natural catastrophes. Such an approach is fiscally responsible because it would reduce long-term taxpayer costs by reducing the need for post-disaster reconstruction. H.R. 3026 would provide for funding for such mitigation efforts for the benefit of those at-risk and in-need populations.

In addition, we support efforts to encourage all property owners to make needed resiliency improvements to their homes. We have been working with Congress to include resiliency in legislation designed to encourage energy efficiency retrofits, and we would welcome the opportunity to brief you and your staff on these efforts and their benefits.

Finally, we also strongly support H.R. 3377, Disaster Response, Recovery and Mitigation Enhancement Act, which has been reported favorably by the Committee on Transportation and

Infrastructure and awaits action by the House. This vitally important legislation authorizes critical new investments in pre-disaster mitigation, would help to modernize our Nation's public warning systems, and provides incentives to the states to adopt and enforce improved building codes.

Thank you for this opportunity to present you with the views of the SmarterSafer.org coalition in opposition to H.R. 2555, the Homeowners' Defense Act.

Sincerely,

SmarterSafer.org

(List of Coalition Members and Allied Organizations Attached)

cc: Honorable Nancy Pelosi

Honorable Steny Hoyer

Honorable John Boehner

Honorable Eric Cantor

MEMBERS

Environmental Organizations

American Rivers
Ceres
Defenders of Wildlife
Environmental Defense Fund
National Wildlife Federation
Republicans for Environmental Protection
Sierra Club

Emergency Preparedness Group

National Flood Determination Association

Consumer and Taxpayer Advocates

Americans for Prosperity
Americans for Tax Reform
Center on Risk, Regulation, and Markets—The Heartland Institute
Competitive Enterprise Institute

Insurer Interests

Allianz of America
Association of Bermuda Insurers and Reinsurers
Chubb
Liberty Mutual Group
National Association of Mutual Insurance Companies
National Association of Professional Insurance Agents
Reinsurance Association of America
Swiss Re
USAA

ALLIED ORGANIZATIONS

National Fire Protection Association
Taxpayers for Common Sense