

**Americans for Tax Reform – Institute for Liberty – Americans for Prosperity – American Consumer Institute – American Civil Rights Union – Taxpayers For Common Sense – Center on Risk, Regulation and Markets**

March 2, 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 scheduled for action by the Committee on Financial Services as early as next month. As representatives of organizations concerned about taxes, budgets, and federal spending, we strongly believe that such a federal effort to subsidize insurance companies and properties in risky locations would be a step in the wrong direction for the nation.

H.R. 2555, introduced by Representative Ron Klein of Florida on May 21, 2009, imposes nearly unlimited potential liabilities on American taxpayers. While it makes certain concessions in the direction of budget neutrality and fiscal responsibility, H.R. 2555's major provisions make it clear that it will ultimately insert the federal government into previously private insurance and reinsurance marketplaces at enormous costs to taxpayers. The bill, as you know, establishes a federally facilitated consortium of states to pool their natural catastrophe risks; provides federal reinsurance for state natural catastrophe funds (which currently exist only in Florida and California) and offers federal guarantee of state bonds related to catastrophes. In the long term, such "backstop" measures will result in wasteful spending, larger deficits, and, eventually, higher taxes. They are not good ideas.

Quite simply, whatever money the federal government devotes to such efforts would be wasted. Insurance and reinsurance, by their very natures, work best when risk is managed across a broad pool of events unlikely to happen at the same time. International reinsurance markets can pool the risk of American windstorms with those of United Kingdom floods and Japanese earthquakes. A government run national consortium or guarantee capacity could not realize the benefits of international risk pooling and would thus have to charge *higher* rates than the private sector in order to break even. We strongly suspect that, rather than charging actuarially indicated rates, however, a government-run fund would under-price coverage and provide an enormous subsidy those choosing to build and write insurance in dangerous places.

The liabilities of any federal "backstop" capacity, furthermore, would eventually become liabilities of the Treasury. Even if the federal government decides to move them "off balance sheet"--as it did with the liabilities of Freddie Mac and Fannie Mae—federal taxpayers would implicitly remain on the hook for billions of state debt, catastrophe fund payouts and, ultimately, primary insurance policies on many homes located in dangerous areas. Our nation does not need a larger federal debt.

Since Rep. Klein's proposal cannot, under any circumstances, produce enough revenue to cover its costs, keeping any such facility on an even keel will ultimately require significant, broad-based tax hikes to cover the billions of dollars in liabilities it will eventually impose. Even by the standards of the federal budget, these liabilities will be quite large: Florida's Hurricane Catastrophe Fund alone has \$4 billion in hard

assets to pay claims that could total more than \$25 billion in a bad year. A national consortium might well require tax increases totaling more than \$100 billion to bail it out after a major disaster.

In short, we are deeply troubled by H.R. 2555, the Homeowners' Defense Act and believe that you should carefully consider its manifest flaws in deciding how to vote on it.

Sincerely,

Grover Norquist  
Americans for Tax Reform

Steve Ellis  
Taxpayers For Common Sense

Andrew Langer  
Institute for Liberty

Phil Kerpen  
Americans for Prosperity

Steve Pociask  
American Consumer Institute

Susan Carlson  
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cc: Honorable Nancy Pelosi  
Honorable Steny Hoyer  
Honorable John Boehner  
Honorable Eric Cantor