



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 27, 2006
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 4973 - Flood Insurance Reform and Modernization Act of 2006

(Rep. Baker (R) Louisiana and Rep. Frank (D) Massachusetts)

The Administration supports House passage of H.R. 4973 and commends the House Financial Services Committee for its support of flood insurance reforms. The Administration's principles for flood insurance reform emphasize the need to assess premiums that are fair and actuarially sound for all Federal flood insurance policyholders, while ensuring a reasonable transition period from the current system.

The Administration strongly supports the concept in the House bill of moving to actuarially sound premiums, but would prefer additional flexibility in the implementation of premium increases to allow an equitable transition to actuarial rates for all policyholders as quickly as possible.

The Administration also supports provisions that help to enforce the mandatory purchase requirements and that improve the data presented on flood maps, particularly showing areas of residual risk. The Administration recognizes the importance of improving the quality of information and looks forward to working with Congress to ensure that implementation concerns are addressed in the final version of the bill.

However, the Administration opposes provisions that would increase the scope of coverage offered by the flood insurance program. Total exposure for the flood insurance program is quickly approaching \$1 trillion, and the program is currently facing a potential debt burden of \$22 billion or more. Increasing the coverage amounts could encourage expensive development in high-risk areas. Additionally, the need for additional types of coverage is unclear without first studying the feasibility and cost implications of expanding coverage.

The Administration has constitutional concerns regarding a provision in the bill purporting to require FEMA claims adjustors to participate in State-sponsored mediation at the request of State insurance commissioners. The Constitution carefully allocates power between the branches of the Federal government, and between the States and the Federal government. This balance could be upset were Congress to confer on State officials the authority to compel agents of the Federal executive into the State's service.

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