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

November 6, 2007
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 3355 – Homeowner's Defense Act
(Rep. Klein (D) Florida and 41 cosponsors)

The Administration seeks to ensure that there is a stable and well-developed private market for natural hazard insurance and reinsurance. The Administration believes that private markets are the most efficient, lowest cost, and most innovative insurance providers. Therefore, the Administration strongly opposes H.R. 3355, which creates a permanent role for the Federal government in natural hazard insurance markets. Accordingly, if H.R. 3355 were presented to the President, his senior advisors would recommend that he veto the bill.

The Administration strongly opposes provisions creating a Federally-backed consortium of States in order to pool catastrophe risk. Although pooling can be an effective mechanism for managing risk, there is no need for a Federal role because States are currently free to associate to address catastrophe risk. Further, the consortium's Federal charter would create an implicit guarantee that the Federal government backstops the consortium's financial obligations. This implicit guarantee would result in an inequitable Federal subsidy for certain State insurance programs and policyholders.

The Administration also strongly opposes provisions establishing a Federal loan program to fund losses incurred by State-sponsored reinsurance programs. This subsidized Federal backstop would displace reinsurance currently available from the private market and would clearly result in a subsidy for insurers, State insurance programs, and their policyholders. Federal subsidies for State insurance programs would also encourage the creation of new State programs and discourage States from charging risk-based rates, resulting in the State programs crowding out the private sector. Subsidized insurance rates also undermine economic incentives to mitigate risks. Individuals facing subsidized rates would be encouraged to take on risks that are inappropriate, specifically putting themselves in harm's way because they do not bear the full expected costs of potential damages. Finally, shifting liabilities for catastrophe exposure from the private sector and State insurance programs to the Federal government would be fiscally irresponsible as the Federal government could expect to face steep losses in certain years. Financing these losses would require Federal taxpayers to subsidize insurance rates for the benefit of those people living in high-risk areas.

* * * * *