

Hearing Statement: Homeowners' Defense Act of 2007

Representative Tim Mahoney

Opening Statement

Hearing on "H.R. 3355, the Homeowners' Defense Act of 2007"

September 6, 2007

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Thank you Chairman Waters. It's been great spending the day with you working on these many issues. And it's always tough going after my colleague, Congressman Ron Klein and I want to thank him for his great leadership and all the years he spent in the Florida Legislature dealing with this issue. His experience and knowledge of this matter has been tremendous in terms of coming up with this legislation. I would also like to thank Chairman Kanjorski for your leadership as well as Chairman Frank

Before I begin summarizing the natural catastrophe insurance crisis affecting Florida, I want to reiterate that this is a national problem. Let me be clear. The Federal Government has been forced to act because private markets for homeowners insurance have failed. The issue ladies and gentlemen is not the industry's ability to pay claims, it is an American's ability to purchase affordable homeowners insurance. This legislation is essential as the investment in a home is the single biggest investment an average American citizen has and it is vital that we protect the American Dream of homeownership.

I am proud that this bill preserves the private homeowners insurance industry. It recognizes that no one got into business to underwrite a nuclear devastation made by man or made naturally. This bill is voluntary as states can choose to participate or not. However, it sets a principal that no longer will the American taxpayer foot the cost of a natural disaster with an expensive bailout. We know that these catastrophic events will happen and this bill ensures that we plan for them in a manner that is cost effective and recognizes personal responsibility.

In 2004 and 2005, natural disasters resulted in approximately \$89 billion in privately insured catastrophic losses. These disasters, and population growth in areas prone to natural disasters, have caused the insurance industry to adjust their models for insuring these events. As a result, insurers and reinsurers are pulling out of or are reducing their exposure in disaster prone areas of the country. Today in my home state of Florida, the citizens of my state are the owners of the biggest homeowners insurance company with over 30% of the market!

In addition to the lost insurance capacity, homeowners have seen their premiums skyrocket. The toxic cocktail of rising gas prices, health care costs, and homeowners insurance has created a viscous cycle of terror for our seniors living on fixed incomes and middle class families struggling to provide for their children.

Recently, I received a letter from one of my constituents detailing the difficult choices she had to make in order to pay her homeowners' insurance bill. Ms. Leanne Finnigan, a single mother of two from Stuart, Florida, was dropped by her insurance company in 2006. She eventually found another insurance company, which charged her more than three times what she had been paying for similar coverage. As a result, she has been forced to work overtime on Saturdays, had to give away one of the family pets, and reduce her weekly grocery budget. Unfortunately, Ms. Finnigan's story is not unique. Thousands of families across Florida have been forced to make similar difficult decisions.

The Financial Services Committee has held numerous hearings on this same issue. During these hearings, several facts became clear: the risk posed by natural catastrophes is not going away, the damage caused by disasters will keep growing, and the insurance premiums have remained high, despite a calm 2006 storm season.

The Homeowners' Defense Act of 2007, which Congressman Ron Klein and I introduced, is a two-pronged approach designed to address the property insurance crisis, ensuring a stable insurance market that will give the states impacted by severe natural catastrophes the ability to help their citizens rebuild their homes and their lives.

Title 2, the National Homeowners Insurance Stabilization Program, extends low interest federal loans to states impacted by severe natural disasters. These loans, which will be paid back by the states, will allow a state's catastrophe fund to cover its liability in the event that it is not fully funded at the time of a disaster and assist it in covering damages that exceed its liability.

Because the legislation utilizes private capital markets and a loan program that requires repayment by affected states, it eliminates cross-subsidization. Taxpayers in Nebraska no longer have to bear the risk of those living in Florida.

This legislation is responsible, fair, and returns stability and competition to the private insurance market. I look forward to working with the Members of this Committee and key stakeholders to ensure that this legislation adequately accomplishes its intended goals.

Again, I would like to thank Chairman Frank, Chairwoman Waters, and Chairman Kanjorski for holding this hearing today, and I look forward to hearing the comments of our witnesses.

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