



**Thomas A. Schatz**  
*President*

December 11, 2007

U.S. Senate  
Washington, D.C. 20510

Dear Senator,

Hurricanes Katrina, Rita, and Wilma caused the National Flood Insurance Program (NFIP) to go deeply into debt and borrow some \$17.5 billion from the Treasury to pay claims. NFIP is up for re-authorization this year and some members of Congress want to expand the program by raising maximum coverage levels and include wind damage, exposing taxpayers to even more costs. This is the wrong approach. The government should be getting out of the insurance business – not increasing borrowing authority, including multi-peril coverage, and expanding its role in disaster insurance coverage. Unfortunately, the House of Representatives passed two bills, H.R. 3121, the Flood Insurance Reform and Modernization Act, and H.R. 3355, the Homeowners' Defense Act, which include these provisions and are now waiting action in the Senate. These bills should be opposed.

The Council for Citizens Against Government Waste (CCAGW) believes a better approach at this time is to support S. 2286, the Commission on Natural Catastrophe Risk Management and Insurance Act of 2007, which was introduced by Sen. Chris Dodd (D-Conn.). This legislation will establish a nonpartisan commission to study any expansion of the NFIP to other hazards, such as wind and the mitigating effects of doing so, and other ways to assist homeowners to protect themselves from natural disasters. This approach is particularly appropriate in that many members of Congress were personally affected by the storms and may not be in a position to provide an objective analysis of expanding the NFIP.

An example of how government intervention in the marketplace fails, Florida's state-run Citizens Property Insurance Corporation now competes with private insurers for primary insurance coverage. Because Citizens has lower premiums due to an implicit taxpayer guarantee and unsound actuarial assumptions, private insurers are leaving the state, canceling policies, and restricting the issuance of new policies. A Towers Perrin study found that every Florida household could be hit with a \$14,000 bill in the event of a major hurricane because Citizens does not have the reserves necessary to provide coverage in such a disaster. Regrettably, the House is following in Florida's footsteps.

CCAGW urges the Senate to take a cautionary approach and support S. 2286, and not follow the House's lead that could produce legislation that will be harmful and expensive to taxpayers.

Sincerely,

*Thomas Schatz*