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October 12, 2009

The Honorable Barack Obama
President
The White House
1600 Pennsylvania Ave. NW
Washington, DC 20500

Dear Mr. President:

I understand that you will not visit the Mississippi Gulf Coast when you travel to New Orleans later this month. Since you have not been to the Mississippi Coast since Hurricane Katrina as a Senator, a candidate for President, or as President, I am sending you a copy of *Katrina: South Mississippi's Story*, produced by WLOX-TV.

Please note the before and after scenes that reveal the devastation caused by four hours of hurricane force winds with gusts to 140 or 150 mph followed by a storm surge as high as 30 feet above sea level. The devastation along the Mississippi Coast occurred during an eight-hour period on August 29, 2005.

In contrast, much of the catastrophic flooding in New Orleans happened several days after the hurricane had passed, as the failures of levees and floodwalls allowed Lake Ponchartrain to drain into the city. These differences in the timing and the forces responsible for the destruction produced different challenges, controversies, and disputes on the Mississippi Gulf Coast than those faced in New Orleans.

Approximately 65,000 homes were destroyed along the Mississippi Gulf Coast, and tens of thousands more had substantial damage. Thousands of Mississippians returned from evacuation to find slabs or scattered debris where their homes had been. In many cases, it was difficult to determine how much destruction had been caused by hurricane-force winds, wind-driven debris, and rain and how much damage was caused by the storm surge flooding that came later.

Immediately after Katrina, we learned that some of the largest insurance companies in America were not going to honor their policies. Inland, beyond the storm surge area, insurers paid hundreds of thousands of wind damage claims all over Mississippi, Louisiana, Alabama, and in parts of Florida, Georgia, and Tennessee. But in the areas that experienced the strongest winds and storm surge flooding, State Farm, Allstate, Nationwide, USAA, and others blamed almost all the destruction on flooding, without conducting investigations to prove the cause.

The National Flood Insurance Program made it easy for the insurers to shift some of their liabilities to federal taxpayers. First, NFIP allowed insurers to handle the federally-backed flood claims and their own wind and homeowners insurance claims, despite the obvious conflict of interest. Then, NFIP approved expedited claims procedures that had been suggested and drafted by State Farm, allowing the companies to pay policy limits on flood policies without performing detailed adjustments. Later, even as it became widely reported that insurers had abused the process, NFIP performed no discernible oversight to review the flood claims. As a result, companies were able to pay as much as $350,000, the maximum flood coverage for a residence and contents, with no one from the government verifying the validity of the payment.

Thousands of Mississippians had purchased both flood insurance and homeowners insurance policies, but their flood policies did not cover the full value of their homes. Thousands more Mississippians did not have flood insurance because their homes were far enough inland and high enough above sea level that they were not in the 100-year flood zones according to the Flood Insurance Risk Maps.

When the insurance companies blamed all damage on flooding, without proving how much of the loss had actually been caused by flooding, many homeowners and business owners who believed that they had the hurricane insurance they needed were left with large uncovered losses. The insurance companies forced thousands of Mississippians to sue to collect on their policies and even to get the insurers to perform a legitimate investigation of their claims.

The insurance tactics not only overbilled the federal taxpayers through the National Flood Insurance Program, but also resulted in billions of dollars of additional federal disaster assistance to assist the displaced residents during their long insurance disputes. Most homeowners whose wind insurance claims had been denied eventually reached some settlement with their insurers after years of delay, but in the meantime, thousands of displaced residents were dependent on federal assistance.

FEMA provided 42,000 trailers at an average cost of $31,000, $15,000 for the travel trailer itself and $16,000 for the ridiculous no-bid, cost-plus contract to Bechtel Corp. to deliver, install, and maintain the trailers. FEMA also provided individual assistance, housing vouchers, and other help for displaced residents. The Homeowner Grant Program in Mississippi provided about $2 billion in grants to homeowners who did not have flood insurance, were not in the flood zone where flood insurance was required, but had homeowners insurance that did not pay for their loss. The remaining uncovered losses that were not directly subsidized by federal payments were eligible for subsidized disaster loans and casualty loss tax deductions.

Because homeowners were not able to rebuild because of uncovered losses and lengthy insurance disputes, federal taxpayers continued to subsidize cities, counties, and schools that could not recover without their local tax base. Small businesses and commercial districts also could not recover because their customers and employees had not returned.

If no other lesson is learned from the experience of the Mississippi Gulf Coast after Hurricane Katrina, we should have learned that coastal residents need to be able to buy hurricane insurance

that will cover hurricane damage without gaps in coverage, without lengthy disputes over the cause of damage, and without inherent conflicts of interest that allow insurance companies to shift liabilities to taxpayers.

If you visited the Mississippi Gulf Coast today, you would find that some areas have recovered, but in the cities of Waveland, Bay St. Louis, Pass Christian, and in portions of the other cities and counties, only one-half to two-thirds of the homes have been rebuilt. The biggest obstacle remaining is the lack of reasonably-priced insurance.

Since Katrina, most insurance companies have stopped writing new policies, not only on the Mississippi Coast, but in Gulf and South Atlantic communities from Texas to North Carolina and even along the New Jersey shore, on Long Island, and on Cape Cod. In Mississippi, thousands of property owners have no wind insurance available except through the Mississippi wind pool, the state-sponsored insurer of last resort. Along the Gulf and South Atlantic from Texas to North Carolina, each state's insurer of last resort has at least doubled in exposure because private insurers have dumped policies into the risk pools. In four years, the total exposure in these state risk pools increased by more than $300 billion.

The Mississippi wind pool is probably the worst possible way to provide hurricane insurance. All of the policies are concentrated in an area 74 miles across where everyone in the pool would be affected by a single event. There is no way to spread the risk geographically, so each year the wind pool has to account for enough capital to pay a high percentage of policyholders if this is the year when a 100-year storm hits Mississippi.

It is not economically possible to raise premiums enough to build up the reserves to cover a major hurricane, so each year the Mississippi wind pool has to buy hundreds of millions of dollars of reinsurance coverage from companies based in Bermuda and other offshore tax havens. Reinsurance is not a competitive market. It functions as a cartel. Last year, the Mississippi wind pool had to pay $65 million in premiums for $470 million in reinsurance to cover a 100-year event. In other words, the wind pool paid premiums of 13% of the coverage for a 1% event. Over time, the reinsurance costs are many times higher than the expected claims that the reinsurers would expect to pay to the wind pool.

Because of the high reinsurance costs, the Mississippi wind pool has had to recommend huge premium increases since Katrina. In 2006, the pool requested a 398% increase in residential premiums. The state used some of the federal Community Development Block Grant funds to help pay the reinsurance costs. That allowed the wind pool to merely double the premiums rather than quintuple them. In subsequent years, the state has continued to use federal and state tax dollars to subsidize the overpriced reinsurance coverage.

Even with the tax subsidies to pay part of the reinsurance premiums, the wind pool premiums have increased substantially. The Hancock County Chamber of Commerce reported several examples of premium increases charged to its members. A small retailer had its annual premiums increase from $8,000 to $30,000 since Katrina. The premiums for a CPA firm increased from $5,400 to $20,400. A real estate office's premiums increased from $7,200 to $30,300. A church had its premiums rise from $20,700 to $69,500. The public library's premiums increased from

$26,500 to $80,500. I am certain that each of these businesses and organizations are paying many times more in premiums than the amount of claims that their insurers expect to pay in losses.

In February 2007, I proposed legislation to resolve the insurance crisis by creating a much more efficient insurance program to protect coastal property owners while also protecting the interests of federal taxpayers. My legislation would create an option within the National Flood Insurance Program to offer coverage for both wind and flood risks in a single policy.

The bill would offer the multiple peril coverage only in communities that adopt and enforce the International Building Codes or the equivalent, and the bill would require that the premiums for the new coverage be risk-based so that the program would pay for itself through premiums. We are not asking for taxpayers in Illinois or elsewhere to subsidize coastal insurance. In fact, we are asking them to support a program that would allow coastal property owners to pay premiums for more efficient coverage so that federal taxpayers do not have to pay for so many FEMA trailers, housing vouchers, grants, loans, and tax deductions after future disasters.

With the strong support of Speaker Nancy Pelosi, House Financial Services Chairman Barney Frank, Housing Subcommittee Chairwoman Maxine Waters, Majority Whip Jim Clyburn, and many others, including then-Rep. Bobby Jindal, the Multiple Peril Insurance proposal passed the House in 2007 as part of a larger NFIP reform and reauthorization bill. Unfortunately, in 2008 the Senate passed a much more limited NFIP bill that did not include multiple peril insurance or any other improvements in coverage. The House and Senate did reach an agreement, so the National Flood Insurance Program has been temporarily extended as is several times. The last extension, included in the FY 2010 Continuing Resolution authorizes the program through the end of this month.

I was surprised and disappointed when your Administration came out against my insurance reform bill in March without taking the time to examine the issue. The March letter took the insurance industry's position against coastal homeowners, even to the point of claiming falsely that there is plenty of private insurance available in coastal communities. Since then, I have met with Homeland Security Secretary Janet Napolitano and FEMA Administrator Craig Fugate and they have promised that the Administration would take a fresh look at my legislation and the related issues. -

I urge you to engage your Administration more actively in reforming the National Flood Insurance Program, providing for better disaster insurance coverage, and improving other disaster response and recovery programs.

The bill I have proposed would allow coastal property owners to buy insurance and know that it would cover hurricane damage without needing to hire lawyers, engineers, and adjusters to dispute their insurers over the cause of damage. The bill would improve the recovery by paying hurricane claims promptly and appropriately without the delaying tactics used by insurers to force desperate disaster victims to settle for less than they are owed or be forced to wait years for their cases to come to trial. The bill would help reduce the damage from future hurricanes by requiring appropriate building codes for both wind and flood risks. The bill would reduce future

taxpayer disaster assistance by closing gaps in insurance coverage and by speeding up the recovery of individual property owners and entire communities.

One concern that has been raised about my proposal is that the National Flood Insurance Program is not capable of the task. I will be the first to agree that the management and oversight of NFIP needs significant improvement. There have been at least six GAO reports since Katrina that have been very critical of NFIP's oversight and management of its administrative contractors and the insurance companies that contract to sell and adjust flood policies. The most recent GAO report concluded that insurance companies received a windfall in administrative subsidies, collecting far more from NFIP than their actual expenses handling flood policies. Your Administration needs to address those problems and reestablish federal control and oversight of the program.

My insurance proposal would benefit homeowners and taxpayers, but only if an Administration wants it to succeed and staffs it with competent, skilled professionals who accept that their mission is to protect the taxpayers' interests, not the interests of the insurance companies and contractors. Please have your Administration take a renewed interest in reforming the National Flood Insurance Program and other federal disaster programs. It would be risky to delay action on these reforms for another year. If we do not enact reforms by next spring, then none of the problems in the flood program will be addressed before the 2010 hurricane season.

It should also be pointed out that some of NFIP's problems are not of its own making. At least half and perhaps as much as two-thirds of the flood claims from Hurricane Katrina were paid on flooding that would not have happened if several New Orleans levees and floodwalls had not failed, despite not being overtopped. Levee breeches and failures were also responsible for much of the flooding in Illinois, Indiana, Missouri, and other river states in recent years.

I sincerely believe that an ounce of prevention is worth a pound of cure, but only if the prevention measures are effective, efficient, and accountable. In the case of the flood program, its effectiveness is heavily dependent on the integrity of levees and other flood control structures, the accuracy of the flood risk maps, and local enforcement of building codes and flood plain management standards. All of these factors call for better federal administration and oversight of contracts.

Thank you for your attention to this request. I look forward to your response. Please contact me if you have any questions or need any additional information.

Sincerely,

Gene Taylor

GENE TAYLOR
Member of Congress

GT:jbm