

Congress of the United States
Washington, DC 20515

February 14, 2006

The Honorable Dennis Hastert
Speaker of the House
H 232, The Capitol
Washington, DC 20515

The Honorable John Boehner
Majority Leader
H-107, The Capitol
Washington DC 20515

Dear Speaker Hastert and Majority Leader Boehner:

As you know, the President's Fiscal Year 2007 budget requests a \$5.6 billion increase in FEMA's borrowing authority because its flood insurance program, the National Flood Insurance Program (NFIP), is unable to cover current claims against it from the unprecedented losses resulting from Hurricane Katrina.

Since 1968, the NFIP has offered property owners in coastal and river areas federally subsidized flood insurance. It currently insures approximately 4.7 million homeowners, renters and other policyholders, who pay premiums for coverage. Total insured assets are above \$800 billion with some 20,100 communities participating. In heavy loss years, when losses exceed its premiums, FEMA is authorized to borrow from the U.S. Treasury up to \$1.5 billion. This borrowing has historically been repaid with interest within very short time periods from NFIP premiums and fees.

However, the catastrophic damage and losses resulting from the 2005 Gulf Coast hurricanes is far exceeding the available resources in the National Flood Insurance Fund. Consequently, Congress last year eventually raised FEMA's borrowing authority to \$18.5 billion. But despite this, flood damage claims from the 2005 hurricanes are now estimated to be in excess of \$20 billion and growing, surpassing all combined payments in the program's history. This will again necessitate Congress raising the limit on FEMA's borrowing authority to pay these claims. And, if additional flooding occurs in 2006, these costs will only grow higher.

Unfortunately, this new borrowing will likely never be repaid by the beneficiaries. According to CBO, it "is highly unlikely that the program will be able to repay that amount of borrowing out of its income from premiums and fees." It is estimated that the interest expenses alone from these loans would consume a large portion of the program's annual revenues for the foreseeable future. It would take decades to repay these costs, assuming no other flooding – undoubtedly, these payouts will be forgiven at some point.

Lacking this ability to repay within a reasonable period, we view deficit-financed spending from any additional FEMA borrowing above its current \$18.5 billion level to be essentially identical to those of a conventional federal spending program. Therefore, spending flowing from additional federal borrowing authority should be fully paid for by spending reductions elsewhere in the federal budget.

In addition, any long-term extension must include comprehensive structural reforms to the program. The hurricanes of 2004 and 2005 have made it clear that legislative action is urgently needed to make the NFIP actuarially sound and able to build sufficient cash reserves to cover higher than expected losses. For instance, comprehensive reform would better align premium rates with the policyholder's associated risk while reducing direct subsidies of over \$1.3 billion annually (starting with the elimination of all subsidies for vacation homes) and address the repetitive loss problem (where subsidies flow to homes to be rebuilt over and over after multiple flood losses), while ensuring proper flood mitigation measures and mapping are in place, enforced and used to reduce losses from future floods. We believe these and other reforms are critical to reducing the taxpayers' risk exposure while strengthening and improving the flood insurance program.

This week, Congress is scheduled to extend FEMA's borrowing authority through April. While this spending should be offset, we appreciate your work with House conservatives to ensure this a short-term extension that will allow substantial time for a vigorous and comprehensive reform of the flood insurance program over the coming months. If this imperative reform effort falters, we will oppose any future increases to FEMA's borrowing authority that are not fully offset.

We look forward to working with you and committee leadership to ensure that this component of federal assistance is both timely and fiscally responsible, and that any package of reforms continues to meet core federal responsibilities.



MIKE PENCE
Member of Congress

Sincerely,



JEB HENSARLING
Member of Congress