



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

September 26, 2007
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 3121 – Flood Insurance Reform and Modernization Act of 2007

(Rep. Waters (D) California and 10 cosponsors)

The Administration commends the House for recent attempts to reform the National Flood Insurance Program (NFIP). Although the Administration supports efforts to reform and strengthen the NFIP, the Administration does not support provisions that would expand the Program. Therefore, the Administration strongly opposes H.R. 3121 in its current form. If the final bill presented to the President includes provisions to expand the NFIP to include coverage for windstorm damage, his senior advisors will recommend that he veto the bill.

The Administration strongly opposes the expansion of H.R. 3121 to provide coverage for new risks, as this bill does for windstorm damage. Shifting liabilities for windstorm damage from the private sector to the NFIP would be fiscally irresponsible. Federal government insurance would displace insurance that is already provided by the private market. Expansion of the NFIP would also undermine economic incentives to mitigate risks because the program would likely distort rates from their market-determined values. Individuals would be encouraged to take on risks that are inappropriate, putting themselves in harm's way because they would not have to bear the full costs of any subsequent damages. Finally, the inclusion of windstorm damage insurance in the NFIP would mean that all taxpayers would be subsidizing insurance rates for the benefit of those people in high-risk areas.

The Administration opposes provisions that would increase the scope of coverage offered by the NFIP. Total exposure for the NFIP is approximately \$1 trillion, and the Program is currently facing a potential debt burden of \$20 billion. Increasing the coverage amounts could further encourage expensive development in high-risk areas and leave the Federal taxpayer with a larger debt burden following the next catastrophe. Moreover, the need for additional types of coverage is unclear without first studying the feasibility and cost implications of expanding coverage.

The Administration has consistently advocated principles for flood insurance reform that emphasize the need to assess premiums that are fair and actuarially sound for all Federal flood insurance policyholders, while ensuring a reasonable transition period from the current system. The Administration strongly supports the concept in the House bill of moving to actuarially sound premiums, but would prefer additional flexibility in the implementation of premium increases to allow an equitable transition to actuarial rates for all policyholders as quickly as possible. The Administration also supports provisions that help to enforce the mandatory purchase requirements and that improve the data presented on flood maps, particularly showing areas of residual risk. The Administration recognizes the importance of improving the quality of information and looks forward to working with Congress to ensure that implementation concerns are addressed in the final version of the bill.

The Administration has constitutional concerns regarding a provision in the bill purporting to require claims adjustors in FEMA (the Federal Emergency Management Agency) to participate in State-sponsored mediation at the request of State insurance commissioners. The Constitution carefully allocates power between the branches of the Federal government, and between the States and the Federal government. This balance could be upset were Congress to confer on State officials the authority to compel agents of the Federal executive into the State's service.

The Administration looks forward to working with Congress to reform and strengthen the NFIP for the benefit of policyholders and taxpayers.

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