The Homeowners Defense Act of 2007

Representative Tim Mahoney
Homeowners Defense Act

• **Problem:**
  – Insurance companies believe they are overexposed and are unable to cover their liability
    • Raise rates
    • Cancel policies

• **Solution:**
  – Support expansion of private capital markets for affordable catastrophe insurance
  – Enough capital to cover all claims in worst case disaster
  – Limit the liability of insurance industry to manage “normal” risk
  – Manage timing risk - Manage pricing post catastrophe
Homeowners Defense Act
Policy Objectives

- Insure affordability and availability of homeowners’ insurance policies for Americans living in disaster-prone areas
- Eliminate federal bailouts after large scale natural disasters
- Strengthen homeowners insurance industry by capping liability and managing timing risk for all natural catastrophes
Homeowners Defense Act
Policy Objectives

• Voluntary program - Works within current state regulatory system
• Provide states with maximum flexibility to manage disasters based on local requirements
• Encourage responsible development and homeowner mitigation
• Consumer protection for “pup” companies and anti-concurrency clauses
• Efficient execution/oversight - Program must adhere to PAYGO rule
Homeowners Defense Act
Title I: National Catastrophe Risk Consortium

- Voluntary federal-state partnership
- States benefit from a pooling of catastrophic risk
- Creates industry standards for the cat bond and risk transference markets
Homeowners Defense Act
Title II: National Homeowners Insurance Stabilization Program

- Establish actuarially sound state/regional cat programs
- 3 Tier system that caps industry and state liability
- Extends low interest federal loans to state reinsurance plans:
  - Liquidity Loans - Available to states with liquidity shortages in their cat programs
  - Catastrophic Loans – Available to states that have sustained losses above their ceiling coverage level
Homeowners Defense Act
We need NAIC support

- HR3355 in Markup this week, will be on floor in October
- Support from:
  - National Association of Realtors
  - National Association Mortgage Brokers
  - Florida Association of Realtors
- Identifying Senate sponsor
- Threatened Presidential veto
- Critical NAIC formally endorses bill and helps lobby