RSC Republican Study Committee

Financial Services Working Group

Congressman Scott Garrett (R-NJ), Chairman — Congressman Tom Price (R-GA), RSC Chairman

July 21, 2010

National Flood Insurance Program Reform

A Lot of Hot Air

Last week Congress passed H.R. 5114, a band-aid fix to the National Flood Insurance Program (NFIP). H.R. 5114 phases out several categories of subsidies, but the reforms still will not make the NFIP self-sufficient and solvent. Congress is now planning to consider H.R. 1264, the Multiple Peril Insurance Act of 2009, which would add windstorm insurance to the plans the government will offer. This insurance is already provided by private insurance companies. Expanding the NFIP will:

- Reduce the incentive to avoid high risk areas because the program will charge less than market-determined rates
- Undermine the existing private market
- Require all taxpayers to subsidize insurance rates for the benefit of those in high-risk areas

The NFIP already owes the U.S. Treasury $18.75 billion; therefore it has been forced to borrow from taxpayers to pay claims and expenses beyond the premiums it has collected. The NFIP is economically insolvent, adding more risk will amount to another taxpayer funded bailout of another failing program.

Who needs wind insurance and why would it be risky?

Wind Insurance is already covered in a standard homeowner's insurance policy, so initial demand for a government-backed plan would likely be concentrated in regions where the risk of hurricane damage is the greatest. With this plan in place a large hurricane or storm that caused both flood and wind losses would exponentially raise the cost to taxpayers and increase the debt of the NFIP.

What the Majority doesn't want you to hear

> ***The (Obama) Administration strongly opposes the provision in the House bill establishing insurance coverage for multiple perils***. *The Administration objects to this coverage for a number of reasons. Coverage is available in the private sector and through state wind pools. Property owners are served by the private market, which provides catastrophic windstorm coverage without the need for Federal aid. The Administration opposes extending the Federal Government's role and increasing its liability for an insurance program that is readily available in the private sector and through state insurance plans… Wind coverage would greatly increase the NFIP's exposure to catastrophic risks at a time when the program has a growing debt and accrued interest of over $19 billion…*- Homeland Security Secretary Janet Napolitano

Additionally, the Association of State Flood Plain Managers (ASFPM) testified on April 21, 2010 to the Subcommittee on Housing and Community Opportunity:

> ***The ASFPM has testified in the past to voice its strong opposition to proposals that would add the unknown exposure of an optional wind and flood policy to the NFIP.*** *While intended to benefit the narrow strip of properties subject to both hurricane storm surge and wind damage, this proposed policy change could conceivably result in coverage of a property in a flood zone that was destroyed by winds elsewhere in the nation. While it is true that many Americans live in coastal counties, relatively few of those are subject to both storm surge and wind damage, so this concept would involve a major cross subsidy of a small group at risk of both wind and flood damage by policy holders throughout the nation.*

NFIP Reform by the Numbers

- **41,775** – estimated number of private sector jobs that could be lost
- **$2.6 billion** – equivalent value of lost wages removed from the economy due to lost jobs.
- **$18.75 billion** – debt already owed by the NFIP without the added risk
  - **$900 million** – interest the NFIP already must pay annually on its unfunded debt
- **$22.1 billion** – approximate value of premium taxes state and federal governments could lose
- **$19 trillion** – value of Gulf coast and eastern seaboard homes, 99% of which is already insured through private or state residual markets

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POTOMAC WATCH | JULY 16, 2010

THE WALL STREET JOURNAL

About That Financial Reform 'Victory'

Dodd-Frank may backfire on Democrats.

By KIMBERLEY A. STRASSEL

"President Obama Signs Historic Stimulus Bill"—Rocky Mountain News, Feb. 17, 2009

"Obama Signs Historic Health Care Legislation"—NPR, March 23, 2010

"Senate Poised to Pass Historic Financial Reform"—McClatchy, July 12, 1010

"Obama Approval Hits Record Low"—Public Policy Polling, July 14, 2010

If President Obama is proof of anything, it's that governance isn't so much about the "whether" as the "what." There's no longer any question whether this White House can close a sale. Its problem is the country doesn't like what it's selling.

Which brings us to yesterday's passage of Mr. Obama's financial overhaul bill. The press is hailing it as another big Obama victory, one that allows the president to brag about fulfilling his agenda and allows Democrats a "reform" to wave going into midterms.

Maybe. Or maybe there's every reason to believe the financial overhaul—like stimulus and health care—proves more political liability than political benefit.

Like stimulus and ObamaCare, this bill barely survived Congress. That alone is noteworthy, considering the White House had been raring for this fight, figuring it an easy score against Republicans who were to be painted as either with the administration or with the Wall Street robber barons.

That line did spur Tennessee's Bob Corker to rush into "bipartisan" talks, giving Democrats ammunition against his fellow Republicans. And in the end it proved enough to lure the GOP's weaker links—Massachusetts's Scott Brown and Maine's Olympia Snowe and Susan Collins—into Mr. Obama's trap. But that was it. All the forces of the White House's populist fury against Wall Street couldn't net it more than six House and Senate Republicans in total.

That's because, like stimulus and health care, Democrats turned the financial regulation bill into a monstrosity. What started as a promise to streamline and modernize the financial system turned into 2,300 pages of new agencies and new powers for the very authorities that fomented the financial crisis. The bill is laden with uncertainty and brimming with costly regulations on small businesses. Sen. Chris Dodd and Rep. Barney Frank made it easy for Republicans to pronounce their bill more Obama Big Government—a "Main Street takeover"—and to justify their votes against it.

Those votes were made easier by the knowledge that, like stimulus and health care, this is legislation that has overpromised. The bill does nothing to address the root causes of the crisis. Yet Mr. Obama recently assured the nation that it not only fixes the system's problems, but was "good for businesses, it's good for the entire economy."

This is the same White House that just launched a new campaign to convince Americans that its stimulus bill—which it promised would keep unemployment below 8%—is working. It's the same White House struggling to explain why health-care costs continue to rise, and benefits continue to disappear, after grandly promising that it would stop all that.

A recent CBS poll found that 86% of Americans believe the president's policies have hurt them or had no effect. The financial regulatory bill has to be viewed in this context—a public that isn't begging to be fooled a third time. A Bloomberg National Poll this month says four out of five Americans have just a little or no confidence that the Democratic financial services bill will prevent or significantly soften a future crisis.

Given the radical and experimental nature of this bill, they will, like with the stimulus and health care, have cause to read in coming months about unintended consequences. The White House is not going to be able to prove it fixed the financial system. But it will have to answer questions about the small business that can't get credit, or the Midwest farmer who has been priced out of the derivatives market.

And the timing is hardly fortuitous. The White House got this far by trashing Wall Street and greedy CEOs. It did this so frequently that the discussion is shifting to how its antibusiness policies are hurting recovery.

The Business Roundtable, its onetime reliable ally, has revolted. The Chamber of Commerce unloaded on the administration this week, calling its polices a "general attack on our free enterprise system." Mr. Obama now gets to sign a bill that will lard job-sapping regulations on the business community as a whole, as even the White House frets how to reassure the public that it is pro-business.

There are, of course, liberals in Congress and the White House for whom this political risk means little. As with health care, the true believers viewed the financial bill as another opportunity to vastly expand government control over the economy, and move the U.S. closer to the European system. They got their ideological victory; never mind about the political fallout.

But for those Democrats worried about keeping their jobs, it's far from clear this bill will help. The financial regulation bill was cast from the same big-government, antibusiness mold as ObamaCare and the stimulus. The public turns against those laws by the day. Maybe financial regulation will prove third time lucky for this majority. They shouldn't count on it.