

**THE BILL AND THE MAN BEHIND IT. POA's conversation with a rising star in D.C.**

POA



An important Bill was recently introduced in the US House of Representatives called the **HOMEOWNERS DEFENSE ACT OF 2007**. Debate has already begun on this Bill.

The Bill was introduced by two rising stars from Florida – U.S. Representatives Ron Klein and Tim Mahoney and already has earned the support of 35 other members from 20 states.

The Bill is extremely significant to POA members because it will reduce premiums and increase the number of carriers offering homeowners insurance in storm-prone areas of the country.

At first glance, the Bill appears to be a give-away to insurers. It's not. The authors of the Bill have taken great steps, and are prepared to take additional steps, to achieve their goal of available and affordable homeowners insurance.

POA's legislative analyst sat down with the man behind the Bill – Rep. Tim Mahoney – and gained tremendous insight into the Bill and the man behind it.

Rep. Mahoney is a man of stark contrasts in that he's what we will call a "new Democrat"

– a fiscal conservative. He is a rancher and a successful venture capitalist who's earned the reputation of being both an avid job creator and supporter of small enterprise. He represents Florida's House District 16, which includes Palm Beach County. He is a member of the House Financial Services and Agricultural Committees and is also a member of the Blue Dog Coalition – a small conservative group dedicated to restoring fiscal responsibility to Congress.

In September, 2006, voters elected him to replace Mark Foley, the Republican destroyed by scandal. Congressman Mahoney will seek reelection and has earned POA's endorsement. He continues to prove he's worthy of our members' support.



Rep. Mahoney describes the Bill he co-authored as one that creates an institutional investment vehicle whereby large investors (not retail investors) can invest in a new category of bonds called Catastrophic Bonds. He says it, in no way, replaces any emergency funds provided by the federal government in a disaster; it's simply a mechanism to take uncertainty (a great excuse for private carriers to jack up rates) out of the equation.

These bonds only purpose is

to serve as reinsurance for state-sponsored insurance funds. Any state wishing to participate, pools their insurance funds with other participating states; participation is not mandatory. Private insurance companies are reinsured and these bonds help lower the cost of reinsurance for the carriers. There are caveats for insurance companies to qualify including:

- ◆ the reinsurer must be a state-sponsored fund (not a private carrier or a consortium of private carriers like what has occurred with various wind pools),
- ◆ the board of the fund must include governmental officials who are accountable to the public, and
- ◆ participating states must have passed laws that enforce the provisions.

Rep. Mahoney also noted that the Bill also contains an insurance stabilization mechanism by providing low cost federal loans to states.

Acknowledging that homeowners are the first line of defense against a catastrophe, the bill encourages sound mitigation efforts and stresses the initiatives homeowners can take to protect their own homes, for example the installation of hurricane shutters, generators, storm windows, etc...

Rep. Mahoney is also interested in adding to the Bill a concurrent clause that would address the wind versus flood water issue. That debate may be better suited for the Flood Bill (HR 3121).

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**US Representative Tim Mahoney won Mark Foley's seat after Foley was forced to resign because of a sex scandal.**

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POA has asked Rep. Mahoney to consider several other issues:

- ◆ Since private carriers benefit from lower reinsurance rates resulting from the catastrophic fund, POA believes the Bill should contain a clause that requires benefiting carriers to an anti-cherry picking mandate. In other words, any carrier benefiting from lower reinsurance rates resulting from the fund must offer all insurance products (home AND auto) and not simply cherry pick by offering auto while bailing out of the homeowners market. POA believes this would most certainly increase the availability of homeowners insurance in areas where they've otherwise bailed.
- ◆ As most POA members know, the government's flood insurance policies are sold by private insurance companies. For example, State Farm and others sell their own policies as well as flood policies issued by the federal flood insurance program. These insurance companies are paid about 1/3 of each premium dollar

collected to sell and service (adjust) the flood policies. When a claim is made, the private insurance companies send out THEIR OWN ADJUSTERS (loyal to that carrier) to adjust the claim, automatically building into the claims equation an incentive to dump onto the flood program (taxpayers) all liabilities of a claim, even those that are contractually the liability of the private carrier. It is estimated that more than \$9 billion worth of claims were fraudulently paid by the taxpayer after Katrina.

Given this, POA believes it's time for the National Flood Program to conduct a "cost/benefit analysis" that would determine if now is the time to in-source (internalize) the adjusting function for flood claims. This would not only eliminate the need to pay private carriers 33% of the flood premiums collected, but it would also eliminate dumping the carriers' liabilities onto the flood program.

- ◆ POA would like for Rep. Mahoney to increase the discount insurers currently allow for fortification of a property. This would include discounts for hurricane shutters, generators, and other things that help mitigate damage done to a property by storms. Currently, many insurers cap the discount percentage at around 15% off of premiums regardless of the fortifications made to a

property. POA is shooting for a 25-30% premium discount cap.

- ◆ POA believes Rep. Mahoney should also investigate what sort of tax incentive can be provided to residents in states that do not have state income taxes including Florida, Texas, Nevada, etc... It may be possible to allow property owners discounts on property taxes in those states however, at this time, the legality of that is unclear.

"The bill recognizes that the single biggest investment for most Americans is their home. I have been proud to work with Congressman Klein to develop legislation that protects homeowners by making sure they have access to affordable insurance. This legislation would encourage responsible development and risk mitigation while ensuring that the American taxpayer will never have to fund a bailout in the event of a natural catastrophe," said Congressman Tim Mahoney.

POA is excited to work closely with Congressman Mahoney and his staff on this and other legislation that benefits the policyholder. We believe he shares our goals of available and affordable homeowners insurance and is willing to do what it takes to achieve those goals.

Interested in learning more about this rising star and/or help ensure he stays in Congress and fight for you? Visit: [www.timmahoneyforflorida.com](http://www.timmahoneyforflorida.com)

**The Bush Administration strongly opposes this bill or anything that remotely resembles it.**