

**MANAGEMENT AND OVERSIGHT
OF THE NATIONAL FLOOD
INSURANCE PROGRAM**

Thursday, October 20, 2005

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:06 a.m., in Room 2188, Rayburn House Office Building, Hon. Robert Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Harris, Pearce, Neugebauer, Fitzpatrick, Waters, Scott, and Cleaver.

Ex officio present: Representatives Oxley and Frank.

Also present: Davis of Virginia, Kelly, Melancon, and Blumenauer.

Chairman NEY. Today the Subcommittee on Housing and Community Opportunity meets to continue its review and oversight of the National Flood Insurance Program. Specifically, today's hearing will focus on GAO's report on issues related to the NFIP, its management and oversight by the Federal Emergency Management Agency, FEMA, and FEMA's implementation or reforms to the NFIP that were mandated by the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004.

Last year this committee spent considerable time and effort on legislation to reauthorize and reform the National Flood Insurance Program. The legislation includes provisions to strengthen the operational and financial aspect of the NFIP by providing States and local communities with an additional \$40 million a year for flood mitigation efforts to try to help with repeatedly flood-prone properties. It allows for increases in flood insurance premiums on properties that refuse Government mitigation offers.

While the Flood Insurance Reform Act addresses a number of procedural problems with the NFIP, additional concerns were raised during the deliberations on the legislation.

Incidental evidence showed that policyholders often did not have a clear understanding of their policies. Insurance claims often did not understand what they were selling or how to process claims correctly. Many policyholders did not know of or understand the appeals process, and many questioned the adequacy of payments in the adjustment system.

The Flood Insurance Reform Act mandated the GAO conduct a study on these issues. The study released this week concluded that improvements are needed to enhance oversight and management of the NFIP.

As evidenced by Hurricanes Katrina and Rita, floods have been and continue to be one of the most destructive and costly natural hazards to our Nation. During this past year there have been three major floods in my district in the State of Ohio. All three of these incidents qualified for Federal relief granted by President's executive order, and recent flooding in January of this year resulted in historic levels in several local dams, and in Tuskares county three communities in the district were forced to evacuate, which displaced 7,000 people in a county out of 70,000.

I was obviously able to witness firsthand the devastation when I toured the damaged properties in Tuskares and Guernsey counties. Of course, we have colleagues who have witnessed unbelievable devastation in their areas of the United States.

Today marks the fourth hearing the Housing subcommittee has held since enacting the Flood Insurance Reform Act. Last week I conducted two productive emergency management summits in Belmont and Athens counties back home. Discussions focused on the devastation of the Gulf Coast and how these recent disasters have amplified many of the shortcomings in the National Flood Insurance Program. It is critical we take the next step forward and review the GAO report and find out why there are so many stumbling blocks to the success of the NFIP.

The National Flood Insurance Program is a valuable tool in addressing the losses incurred throughout this country due to floods. It ensures that businesses and families have access to affordable flood insurance that would not be available on the open market.

Last year's Flood Insurance Reform Act achieved significant reforms to this important Federal program. I look forward to hearing from our witnesses today as we discuss how best to implement the legislation, as well as determine whether new reforms and initiatives are in order to complement the work we accomplished last year.

I want to thank our witnesses this morning for taking the time to share their testimony, their important testimony, with this subcommittee, especially Chairman Richard Baker, Congressman Gene Taylor. Also, I want to thank David Maurstad of FEMA, who should be designated as an honorary member of the Housing subcommittee for his numerous appearances here before this subcommittee. I also believe Congressman Melancon may be—oh, I'm sorry—is here to our right.

I also want to thank our ranking member, Maxine Waters, all her work on this, and also the ranking member of the committee, Barney Frank, and his staff. Mr. Reilly came to Ohio, has had different hearings on disaster issues, along with our staff, Tallman Johnson, Clinton Jones, and Cindy Chetti, who have worked on this issue.

And I will recognize, without objection, the gentleman from Oregon, Mr. Blumenauer, and the gentleman from Louisiana, Mr. Melancon, will be permitted to participate in today's hearing. And,

I'm sorry, very important, the gentlewoman Jo Ann Davis from Virginia. The gentleman from Massachusetts?

Mr. FRANK. Thank you, Mr. Chairman. I appreciate the diligence you have been showing in this effort to deal with the terrible events that befell the residents of the Gulf Coast.

As people who follow this closely know, we actually anticipated the need for changes in the Flood Insurance Program. It was interesting afterwards to have people say, "Well, okay with flood insurance, but you've got to do these things," many of which had been done as a result of the initiative of this committee.

The gentleman from Louisiana, with his knowledge of it, had a major role in shaping this bill. There was a genuinely bipartisan effort in the last Congress. Our former colleague, Mr. Bereuter of Nebraska, and our current colleague, Mr. Blumenauer of Oregon, worked together to do this. And we will be talking, obviously, both about what can be done here, but also—and I noted our Senate colleagues raised some questions.

Again, it was bipartisan. It was both the Senator from Kentucky, Mr. Bunning, and the Senator from Maryland, Mr. Sarbanes, who pressed for better implementation of some of the things we put into the bill last year, including mitigation.

We are sometimes accused of just sending out money and the legislative work we did last year clearly refutes that. And in a bipartisan way, we and the initiative to come out of this committee—and the chairman of the full committee was one of those most responsible for it happening—we restructured that program and put into it many of the safeguards, both environmental and fiscal, that people wanted.

I was very pleased when that bill was being pushed that it had strong support from the taxpayer groups concerned about a better use of Government money and the environmental groups. So there are some aspects of that bill that are not being implemented. Obviously, we understand the focus right now on the aftermath of Katrina, but that's only for the last month and a half. And there is I think an obligation on the part of those responsible to explain to us why more hasn't been done to implement last year's bill and to give us more assurance.

Beyond that, I want to express my strong support for the efforts that our colleague from Mississippi, Mr. Taylor, has taken. And New Orleans, obviously, is a picturesque and famous part of American culture celebrated in movies, and books, and song, and has been the focus of a lot of attention, understandably, but it is not the only part of the region that was hit.

Mr. Taylor represents a part of the region in the Gulf of Mississippi that was hit very hard. He has been absolutely tireless from the very first moments in calling attention to that, and working responsibly to try and get some aid for those people he represents, and we are talking particularly about people who don't have vast resources.

And again, as I said, people sort of saw the TV pictures of the victims of this disaster in New Orleans. We have other victims who deserve every bit as much attention, and Mr. Taylor has been reminding all of us of that, and I was particularly pleased to work

with him on his legislation that would provide some help for people who did not have flood insurance.

And I think to let people's—to let the situation rest where people of moderate income, low income obviously, but even people of moderate income whose houses have been wiped out, to get no help whatsoever when their houses are wiped out through events over which they had no control is a great mistake.

And I believe that we have the capacity to respond. I think we can respond in ways that do not encourage future irresponsible behavior. There were people who were badly advised. There were flaws in the Federal program. I do not think the moderate income homeowners of the Gulf Coast of Mississippi ought to bear that burden, and we also want to understand that by helping them, we also avert serious damage to our financial system.

One of the things that I most fear, and I know many other members of the committee share this, is a continued move in this country towards larger and larger banks and a threat to the smaller community banks. We need a mix. We don't want to see the smaller banks and the credit unions forced out of business.

If, in fact, the most responsible banker in the world, the most responsible credit union official in the world whose locus was in Mr. Taylor's district or in parts of Louisiana had made home loans that were perfectly reasonable, he or she would now find the situation where the bank's future is threatened, not because of any error anybody made, but because of an entirely unanticipated event.

And if we allow the individuals to go uncompensated, not only do we have serious problems for them as individuals to which I think we should respond, but we get systemic problems. We will see bank failures. We will see credit unions go under that cost the Government some money on the insurance front. But even more negatively, it undermines our ability to keep this network of community banks.

So, the legislation Mr. Taylor has put forward I think is a very responsible way to provide desperately needed help for individuals who have worked hard all their lives, did nothing wrong, and found themselves in this distress, but also, as part of our responsibility to the Banking Committee, averts a further push towards the kind of excessive consolidation of the industry, which is not a good thing.

Thank you, Mr. Chairman.

Chairman NEY. Thank you. Without objection, I have several statements for the record: a statement of the National Association of Professional Insurance Agents, a statement of the Independent Insurance Agents, a statement of Representative Jo Ann Davis, a statement of Steve J. Kanstoroom. Without objection, it will be part of the record.

[The following information can be found on pages 52, 145, 149, 152 in the appendix.]

Any opening—Mr. Pearce, opening statement? Mr. Scott, opening statement?

Mr. SCOTT. Very brief, Mr. Chairman. First, let me thank you for the excellent leadership you are providing on this issue, and I certainly look forward to hearing from Mr. Baker and Mr. Taylor, of Louisiana and Mississippi areas that were hit so impactfully. We

have no better twosome in this Congress that can deal with it and help us understand the magnitude of the tragedy because they, indeed, were in the eye of the storm, as were their constituents.

It seems to me we have two issues to consider when reviewing flood disaster responses. The first is to determine if flood maps are updated and accurate and if enough homes are covered by the insurance.

The second issue is whether or not Federal agencies are prepared to work with State and local authorities to plan for and execute a disaster plan. FEMA has estimated that national flood insurance claims for Hurricanes Katrina and Rita could exceed \$22 billion. This amount would surpass the total payout since the program began 37 years ago.

Now we have Wilma that is now headed to Florida according to the latest estimates of direction. It could change at any time, however, but Florida seems to be directly in the path, and it is estimated to be one of the most powerful storms ever on record.

It is imperative that flood mapping be quickly updated in all coastal communities while insuring that those homes adjacent to flood plains have adequate protection.

Most of the ninth ward residents in New Orleans were not required to purchase flood insurance since Federal flood maps assume that these neighborhoods would be protected by the levee system. There are concerns that many of these residents will now lose their homes.

I look forward to the hearing. And, hopefully, we can address some very critical questions. For example, should FEMA be independent from the Department of Homeland Security? How would you grade FEMA's ability to work with State and local officials in flood map development? We need to elaborate on the current efforts of the Department of Homeland Security, to work with local communities to plan for disasters and terrorist preparedness.

We need to determine are we finding that other communities are not following through on their preparedness. These are very critical questions for a very critical time in our Nation, and I look forward to this hearing and hearing from this distinguished committee. Thank you, Mr. Chairman.

Chairman NEY. Well, I thank the gentleman. The gentlelady, our ranking member from California?

Ms. WATERS. Thank you very much, Mr. Chairman. I would like to submit my statement for the record and just briefly say that it is not enough to say how frustrated I am with the lack of support and protection for the victims of these hurricanes.

Mr. Chairman, you have held hearings where we have attempted to get at vital information about the National Flood Insurance Program. And I think that on more than one occasion we have been misled.

And it appears that just as FEMA was in chaos following the hurricane, not equipped or able or competent to respond in a timely manner, now we are learning that the National Flood Insurance Program appears to be not what some of us thought it was. And many of the allegations that have been made about adjusters, et cetera, appear to be true.

And so, I am going to let us get on with this hearing today and have some questions to answer later. And I will submit my statement for the record.

Chairman NEY. I want to thank the gentlelady also on her work on this issue.

Mr. Cleaver has no opening statements. Mrs. Davis? The gentlelady is not—Mr. Neugebauer?

Mr. NEUGEBAUER. Well, just briefly, Mr. Chairman, I think this is an important hearing. And one of the things I think that we need to continue to think about is ways that we make this flood insurance program an insurance program that works.

But I think what we do also need to understand is what the limitations to a flood insurance program are. And one of the things that I believe that we are going to have to do is go to a risk-based system where we are in areas where there is a higher risk for the kind of events that we have witnessed in the past few months, that there may have to be a higher premium for that.

Because certainly what we don't want—and we have to have a system where there is participation and not the anticipation that every time one of these events happens, that the Federal Government is going to have to step up and be responsible for the losses that occur. And I think that the perfect system is one that, hopefully, maybe incorporates more in providing a partnership with the Federal Government and the private sector to determine what these risks are, and how to adequately build a premium base that will support those programs.

But obviously, there is much more risk in a river rising in certain areas than there is a hurricane wall that none of us can foresee the surge that might happen during that time. So I look forward to having some important dialogue about this program.

Chairman NEY. The gentleman from Louisiana, do you have an opening statement?

Mr. MELANCON. No. I think anything that I would express would be expressed by Mr. Taylor or Mr. Baker. Thank you, Mr. Chairman.

Chairman NEY. Thank you. The gentleman from Pennsylvania, do you have an opening statement? Thank you.

With that, we will move on. I just wanted to—did want to say a couple of things. The ranking member, I think, was one of the first non-Gulf Members of Congress on the scene in the New Orleans area and in other parts of the Gulf, extensively looking also at the shelter situation down there.

And also, the first hearing we had was requested by the gentlelady, actually, from Virginia, Mrs. Davis, and we appreciate you starting us rolling.

And I am going to move on right away. I want to say one other thing, too, that I don't think the public knows. And I know it wearing another hat, chairman of the House Administration Committee. I just want to give credit to the Members sitting here, the three Members from the Gulf, and the other Members, both sides of the aisle, from the Gulf and their staffs.

When this all happened, we extensively dealt with the Members. If the staff couldn't get a phone call through, they tried 900 more times until it happened. They wanted to make sure they were there

for the constituents, the Members and your staff. They did a remarkable job under a very terrible situation to make sure that they were there for your constituents, as you all were. So I credit you for that.

With that, we will start with Mr. Baker, Chairman Baker.

**STATEMENT OF HON. RICHARD BAKER, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF LOUISIANA**

Mr. BAKER. Thank you, Mr. Chairman. I want to express my appreciation to you and the Members for your continuing attention to these difficult subject matters.

As to your responsibility in House Administration, I certainly want to acknowledge the extent to which you and your staff went in trying to facilitate just the simplest of tasks. Just communication was extraordinarily difficult. And your team went well beyond any expectation in trying to assist us in meeting our obligations. And for that, I am grateful.

I think to speak to this issue this morning, I want to start with just a brief historical story to establish my credentials on this matter. My dad is now a retired Methodist preacher. Years ago, served a church in Baton Rouge for 10 years. And when I went to the church—I was 6 when we left—I was 16, so I was affectionately known in the church as Little Richard. That causes some confusion, I'm sure.

[Laughter.]

Mr. BAKER. However, when my dad would meet with individuals after our departure from the church, he ran into a lady, a senior lady, who said, "Well, Reverend, how is Little Richard these days?"

And he gave the usual kinds of explanations about legislature and elected to Congress, and so forth. And when she heard, "He is now a Member of Congress," she dropped her head and said, "Oh, he used to be such a nice young man."

I think the flood insurance program and I enjoy similar regard. And I am speaking here today in defense of the flood insurance program. I would like to establish that when any natural disaster affects any region of the country, the only natural disaster which has a structured program where we collect premium and pay out benefits is the flood insurance program.

Whether earthquake, tornado, mudslide, fire, we simply write checks out of the United States Treasury. Questions have not been asked, "How do we have budget offsets for those expenditures?" We respond because people are in need.

Since 1988, every dollar advanced to pay claims for the National Flood Insurance Program have been repaid with interest, with premiums paid by policyholders.

Now that doesn't mean that the system can't be made better. Two years ago—Mr. Frank made reference to the reforms that were adopted relative to repetitive lost properties. I will admit, Louisiana was one of the contributors to a significant problem. There was one property I know of where there were 21 claims submitted and paid. There is no excuse for that.

The reforms adopted 2 years ago went to great lengths to eliminate abusive and inappropriate practices, and there are still limitations in the program's implementation. But I will say to you, Mr.

Chairman and members, in principle, what the flood insurance program provides is a well structured program that operates as intended with room for improvement. There is no other natural disaster that can lay claim to any such structure.

Therefore, I find the discussion of whether we should have a flood insurance program, that it's abusive or wasteful, frankly, very inappropriate. Mr. Taylor, I know, has a remedy for needs he has identified. I have my own program that I am introducing today that addresses some needs.

Certainly we ought to have a discussion about how we can improve on it. But the idea that this is taxpayer money flowing out the door without accountability is simply not accurate.

Where do we go from here? One of the matters which I think needs to be addressed is the current limitation on the line of credit. As I indicated, if you have a rush of claims and there is no cash in the drawer, you can go borrow money, which is subsidized by the taxpayer—today, up to \$2 billion.

As has been mentioned by members earlier, the expected losses to be paid merely for Katrina are approaching—and they, in fact, exceed—\$20 billion. There will be a necessity to increase that line of credit for borrowings to pay obligations as they come due.

I think it appropriate when we are addressing the line of credit that we also address the issue of the \$250,000 limit. For those not familiar with the aspects of the program, if you choose to buy all of the flood insurance one can attain through this program, the maximum you can get for your structure is \$250,000, and \$100,000 for contents, for a total of \$350,000.

As people on the lakefront of New Orleans are painfully learning, who may live in a \$1 million or \$2 million or \$3 million home, the flood insurance won't buy the lot back after this disaster. And so, it ought to be made available on an actuarial basis where a person can acquire whatever flood insurance they think appropriate for the risk they face.

Enforcement. Louisiana is only second to Florida in the number of policy holders who pay premium. We're about 42, 43 percent, somewhere in that range. I do not understand why financial institutions do not mandatorily force place flood insurance coverage when they issue a loan to an individual.

Let me, for sake of reference, bring to the committee's attention the map dated March 1, 1984, for the principal area known as New Orleans. There is a notation on this map. By the way, all of this is—would be normally—in the flood zone. But it's designated as Flood Zone B. There are a whole host of flood zone designations which relate to the rate you pay, your premium. All zone B areas are protected from the 100 year flood by levee, dike, or other structure, subject to failure or overtopping during larger floods.

March 1, 1984, Mr. Chairman. Why is it that a financial institution extending hundreds of thousands of dollars of credit would not take the fiduciary responsibility to require flood insurance on those properties for which they are extending credit? It makes no sense.

I think we should have a requirement that within a certain number of miles of a coastal zone—from New York, which experienced a hurricane in 1938, to Washington State—the entire coastal area of the United States should be mandatorily required to participate

in paying premium to the flood insurance program. That is the only way we can address Members' concerns about repayment of lines of credit extended to meet obligations of Rita, Katrina, and—God help us all—Wilma.

We all know they are going to come. We all know that coastal areas are exposed. Why don't we address it and simply say, "Everybody is in the deal." That's what keeps prices low. That's what keeps taxpayers from being unnecessarily under financial duress. It's logical, defensible. I'm from Louisiana. I live 8 feet above sea level. I can do this. The rest of the Congress should be able to do this.

This past two weekends, we watched as New England unexpectedly suffered extraordinary flooding loss and loss of life. What is not generally described or known, outside the 100-year flood plain—everybody is familiar with the 100-year flood plain. If you're in the 100-year flood plain, everybody says you ought to have insurance. Twenty-five percent of all the claims paid by the National Flood Insurance Program are for properties outside the 100-year flood plain.

Now we can't simply say, "Because you're outside the 100-year flood plain, you have no obligation to protect your property." We need to have better mapping and assessment. We need to have an identification of risk and people obligated to participate in the flood insurance program and assessed a premium in relation to their actuarial rate exposure.

I will introduce today legislation to create a Louisiana Recovery Corporation. The corporation will be empowered to issue debt off budget, subject to approval by the Treasury, to get us out of the recurring necessity to come to this Congress and fight appropriations battles.

We cannot tell you today the cost for our environmental remediation. We cannot estimate the cost to give people the opportunity to move on with life. That information will develop over years as we move forward with our redevelopment effort.

There is no local authority. The State government doesn't have the ability. Fitch, Moody's S&P have all downgraded our ability to issue debt. We're on a negative credit watch. It's only a matter of time before our ability to sell debt obligations in the capital markets will be so impaired it will make no sense. We have to have the Federal Government's ability to borrow.

I understand there is an obligation to each of you and your constituents to be transparent and responsible for the money we spent and, to the best of our ability, repay what we are borrowing from the rest of the generosity of the Nation.

To that end, we should empower this organization to go in and acquire large tracts of land, respecting private property rights. If you want to take a cash settlement and move on, fine. You're going to take a loss. So is the bank. The banks are going to come in for a big hit on this. So are the insurers.

If you want to stay with us, and live through the redevelopment, and have your tract of land back when it's done, fine. We're not going to pay you anything; you're just going to be a partner in redevelopment.

If you would like to have a cash payment and have an option of first right of refusal on the redevelopment of property, that's fine too. We will give you that shot. And if you want to come back and buy at market rate that tract of land, that's fine.

If you don't want to do any of it, if you want to just sit it out on your tract of land where you are today with no help from anybody, that's your choice. You can do that too. Respecting private property rights. There is not going to be bulldozers running wild down the middle of New Orleans taking people's property away from them.

At the same time, in order for a redevelopment to occur, somebody has to be able to provide for levee restoration, environmental remediation, basic infrastructure so we can have large tracts of developable property made available to the market.

Last week of this month, we will have the GSE reform bill on the floor. One of the important assets of that bill is an affordable housing fund. It will make available \$500 million to about \$1 billion annually of affordable housing money for Katrina/Rita victims.

This redevelopment plan will not be about making rich people richer; it will be about rebuilding Orleans and the surrounding area in a way which is a modern community that affords opportunity for everybody, from subsidized housing, multi-family, to giving those who have good fortune an opportunity to reclaim some of their loss.

Mr. Chairman, I hope you and members of the committee will carefully review the legislation known as the Louisiana Recovery Corporation, and in concert with your ongoing examination of the flood insurance program, in concert with the massive redevelopment requirements that are going to be needed for Mr. Taylor, myself, Mr. Melancon—and I want to get that on the record; it's Melancon—that we are going to be around for a long time asking for a lot. We know it.

We need to be held accountable; we need to be subject to reporting standards. We want to do this the right way.

I thank you, Mr. Chairman.

Chairman NEY. Thank you.

The gentleman from Mississippi.

**STATEMENT OF HON. GENE TAYLOR, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MISSISSIPPI**

Mr. TAYLOR. Mr. Chairman, thank you very much for letting me appear before your committee. And on a private note, as someone from possibly the most affected area by the storm, I want to thank you in your capacity as the chairman of Oversight for allowing me to hire, within the limits of my budget, a couple of extra staffers because of the unprecedented amount of casework that has been generated by this storm. I thought that was incredibly generous on your part, and I think it should be noted by my colleagues.

Mr. Chairman, I'm going to take about as long as Mr. Baker, so please indulge me. It's going to take—this is of such great importance to so many people, that I just can't say it in 5 minutes. I do think it's important to walk my colleagues through this.

Like most of you all during the August break, I took a couple of days off. Like most of you all during the August break, at night I

gave speeches. But on the nights when I didn't give speeches, I made shutters. I bought \$2,000 worth of plasticized decking. No telling how many hundreds of dollars worth of stainless steel screws, deck caulking, and every night I made at least a pair of shutters, and many nights as many as three.

On the weekends, when my son wasn't working, we installed those shutters. I come from hurricane country. Preparing your house for a hurricane is not only a part of your life, it's a part of your job as a dad, to show your son how to do it, just like my dad showed me.

On the day of the storm, we actually finished installing the last pair of shutters, about 3:00 in the afternoon. The wind was kicking up to about 30 knots, and you can imagine how much fun it is being on a second story ladder trying to hold a drill in one hand, a screwdriver in the other, and a 50-pound shutter in your third hand, while your son is helping you.

We got them all up. And then the routine is you move inside, and you start taking your furniture—none of which would be fancy by your standards—but you take the least desirable furniture, and you put it on top of the kitchen counter. You take the stuff that's a little bit better than that, you put it on top of that. You take the stuff that you might have inherited from your folks, and you put that on top.

Again, I live in a place that's only 14 feet above sea level. But in the 28 years that I have lived it, I have never lost a shingle; it's never flooded. But I do know that in Hurricane Camille it took about 2 feet of water, and that in Hurricane—I'm sorry, about 4 feet of water. And Hurricane Betsy took about 2. We live in an area that comes to accept that.

But the point that I'm trying to make in all this is there are some cynics in this town who would have you believe that somehow the people of Mississippi weren't prepared for the storm, that they didn't take the steps necessary to protect themselves. And that's sheer nonsense.

The people of Mississippi—what happened in my home was going on in every home in south Mississippi simultaneously. Fathers and sons were buying plywood, boarding up their windows. They were taking the family possessions and trying to get them up off the ground if they thought their house was going to flood, or if they thought the roof was going to get blown off, or trying to find some common ground, as I did, when you imagine that both things could happen. And you want to take those things that are precious to you and try to protect them.

My wife, simultaneously, was taking the family photos, putting them in Rubbermaid tubs, and taking them with us when we left. She had learned that lesson because both of her grandparents lost everything they owned in Hurricane Camille, including the family photos. And so, again, you learn to cope with this. It's just a way of life. It's like a disease. You try to prevent it, but you know if it comes you take the necessary steps to minimize it.

So, for those people who were saying that somehow the people of my district, or any district, are trying to game this into getting rich, don't kid yourself. Every one of us would rather have our houses back. All we're trying to do is help make people whole.

Historically, it is a place where people stay for a long time. My family has been there for 53 years. We're relative newcomers, but the old timers can tell you about the storms in the early 1900s. They can tell you about the 1947 hurricane, the storm in the early fifties, Betsy and Camille. They can tell you about lashing a wooden skiff behind the house so that when worse came to worst, you pulled the skiff up, you put your family in it, and you went inland.

In the case of my neighbor, Larry Larue, if it was a mild storm like Betsy, he went to his daughter's house a quarter of a mile away. If a bad storm like Camille, he went to his brother's house a half-a-mile away by boat. Again, you deal for this. You know it's coming, and you take the necessary steps.

What I am asking today, though, is to help those people who could not have envisioned this storm being as bad as it was. You see, houses that made it through Betsy, houses that made it through Camille—like mine—no longer exist. They are gone. There is nothing there but a line of debris.

And you could say, "You should have known better," but these places were there, in many instances, since the Frenchmen landed in 1699. They were also backed up not only by local knowledge, but by the knowledge that our Nation provides for us the Federal Flood Insurance Plan.

One of the things I would like to point out is that there will be some people who say that, "You should have known your house was going to go, you should have bought flood insurance. And if you didn't, shame on you."

This is a Federal flood insurance map drawn by Government experts in Long Beach, Mississippi. This area fairly close to the water is the flood plain. As Congressman Baker pointed out, if you live in this area and you go to buy a house, your banker is going to tell you you have to have Federal flood insurance. They won't guarantee your loan if you don't have Federal flood insurance. So everyone in this area buys it. I was one of those people who lived in an area that required Federal flood insurance. I had it.

This is the map that another Government agency, the Corps of Engineers, tells us—the exact same block. Remember? One was very close to the water. This is what the Corps of Engineers tells people south of Mississippi that in the event of a bad storm, "All you guys need to get out of here."

So, we have the National Flood Insurance telling folks basically just down here you need to worry about a storm, but the Corps of Engineers telling you all the way up here—now this is about 10 miles—"In the event of a bad storm, you need to get the heck out of there," based on Government information.

This is what happened in just one of the towns I represent. This is Long Beach, Mississippi. Now it's a little strange looking at it from the sky, but it's the same map as the first one. This lighter stuff that you're seeing is debris. It was people's houses. You don't see any big chunks of houses because they have been just broken up into small pieces again.

What you will find very interesting is, again, that flood line of where you are required to have Federal flood insurance because the American experts told them so is about right here. What this is is a 100-foot-long barge that at light draft draws 3 feet of water, but

this one was full. So it draws over 6 feet of water. It's several blocks inside where the Government—I'm sorry, it's several blocks above where our Nation's experts told these people they had to have Federal flood insurance.

This was a casino barge. Used to be down here floating. It's now on the wrong side of Highway 90. This is another barge on the wrong side of Highway 90. The storm surge, as you can see—this is where it ended; this is where the pieces of people's houses ended up, well beyond what our Nation's experts told them the storm would take them to.

Now why do I say all this? The point is not to help me, because I had flood insurance. It's to help those tens of thousands of south Mississippians and south Louisianans who lived outside of the flood plain that our Nation's experts told them they should expect, who their bankers, like Congressman Baker just told you, said, "Look, you're outside the flood plain; you don't need flood insurance, no use wasting your money." And it is relatively inexpensive.

But I will take it a step further. In August, the Consumer Federation of America, the folks that are supposed to be out looking for us, helping us out, actually issued a press release talking about ways that people waste money on insurance. One of the things they listed in the way that people waste money on insurance, one of the examples was those people who live outside the federally-mandated flood plain who buy flood insurance.

So when you say that maybe these guys should have known better, I hope I have provided you with some examples of why they don't. And there is probably some people who say, "Well, they are just dumb Bubbas." You know? "Who cares about them?"

Well, Jerry St. Pe, the former president of Ingalls Shipbuilding, 13,000 employees, builds one half of our Nation's surface fleet, isn't a dumb Bubba. Ricky Matthews, the publisher of the Gulf Publishing Company, his son Harold, is not a dumb Bubba. U.S. District Judge Lou Guirola, appointed by this administration, is not a dumb person. My predecessor, Cy Faneca, one of the smartest attorneys in south Mississippi, is not a dumb man.

What all these people have in common? They lived outside the federally mandated flood plain; they did not have flood insurance; and they are getting no coverage. Now, why are they getting no coverage? Every one of them had wind insurance, every single one of them. But if you read down in that wind policy, there is a provision in there that says if there is wind-driven water, they don't pay.

So, if the wind knocks a tree into your house during the storm, you're okay. If the wind blows your neighbor's house into your house during the storm, you're okay. But if the wind generates a 30-foot wall of water that caused the kind of devastation—that's just in Long Beach; there are actually places worse than Long Beach—a 30-foot wall of water that picked up the Bay St. Louis bridge and threw it over in the bottom of the bay, you're not covered.

I'm trying to make those people whole. Like the rest of us, they probably had credit card bills. Like the rest of us, they had mortgages. But now, unlike the rest of us, they suddenly have a house that's either uninhabitable, at best, or gone, at worst. And their in-

insurance company is saying, "We're not going to pay you a dime because that was water and not wind."

There are a couple of ways we could address that. We, as a Congress, don't make the sun rise and set. But we, as a Congress, do decide what to call the number of—the time of day that that sun comes up and the sun goes down. We call it Daylight Savings Time.

We, as a Congress, could say to the insurance companies, "That was wind-driven water, that 8 inches of rain don't cause a 30-foot flood of water, and you are going to honor those insurance claims." I'm not so sure that my colleagues are willing to do that.

Second thing we could do is just come up with some money, just give them a grant. Again, I got here; I got elected on the day of the San Francisco earthquake. One of the first things I did was to vote to help those people. Since that time, there has been a big flood in the Midwest. I voted to help those people. Hurricanes in South Carolina, in Florida, Texas, I voted to help those people.

So we could just vote to give them some money. Or we could take a third step. And we could allow those people—prudent, smart people, who lived outside the flood plain, who weren't required to have flood insurance, but now find themselves in this horrible bind—we could allow them to pay 10 years back premiums, take a 5-percent penalty, and then file a claim up to the value of their wind coverage, or the \$250,000 that Mr. Baker told you about, whatever is less, and file a claim as if they had been in the program all along.

Furthermore, much like Congressman Baker is telling you about, we would then require them to stay in the program as long as they own that house so that they can't game the system, get a check today, tell us goodbye tomorrow, and so that they don't file the multiple claims that he is concerned about. And I share his concerns.

That's what the legislation does. I am very fortunate to have about 40 of my colleagues co-sponsor it. I am very fortunate to have Congressman Frank help us put this together. It has been endorsed by the Mississippi mortgage lenders; it's been endorsed by the Mississippi bankers. I would hope it would be endorsed by you.

You know, basically what it's doing is in a time of severe—and believe me, you guys have been great. Every one of you, at one time or another, has walked up to me since the storm and said, "What can we do?" This is something you can do.

I am asking basically the same thing we asked for as congresspeople. We got here because we asked other people to help us, and we got here—and the other thing we got in our lives is every one of us got a second chance. I am asking to give the little league coach, the preacher, the people who have invested in south Mississippi a second chance because if they don't get it, tens of thousands of Mississippians will have their mortgages foreclosed. We can sit back and do nothing, or we can help them. I am asking you to help them.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Gene Taylor can be found on page 140 in the appendix.]

Chairman NEY. Thank you. I want to thank both gentlemen for your very compelling testimony. And I will turn—are there questions of the members? Gentledady from California?

Ms. WATERS. Yes. First, let me just say to the Members representing these areas that you are absolutely correct about the feeling of your colleagues about what you are going through and what your constituents are going through. And we certainly appreciate each—everything that you do to try and make your constituents whole, to try and help them. This has been a monumental disaster. We all recognize that, and we want to help.

I am listening to the bills that you are proposing, and of course I want to take a close look at them to see if there are more questions that I may want to raise with you, starting with you, Mr. Baker.

I want you to know that even though you describe this as not being taxpayer money, that we care as much about constituents who pay premiums as we do about just taking the money from the Federal coffers if there were no premiums involved. We believe that these people should be respected, and we should do everything that we can to help them.

When you talk about creating a new authority, does this mean that this overrides the city role and the State role in helping to bring about some relief and some rehabilitation? How has this idea come together? Are all of these entities involved in some way? Who is the appointing authority, and who will run this authority? Who will sit on this authority?

Mr. BAKER. As you are aware, Mayor Nagin has appointed his commission; Governor Blanco has appointed her commission; the President has said he would like to see the redesign of communities adversely impacted be built from the bottom up, meaning local community, homeowners, elected officials, local planners come up with the ideas of how they would like their community to be restructured.

The proposal that I am offering is only the mechanism by which we pay for whatever it is the local community decides should be done. Public hearings, involvement—as I indicated in my testimony, if an individual doesn't want to participate, you can stay right where you are with whatever asset you have got, and you are outside the process. If you want to take money and move on, we provide that option. If you want to be a partner in the development, we provide that option. If you want to take money, and wait and see, and come back and buy in later, we provide that option.

This is a homeowner-sensitive plan where homeowners decide what should be done with their property. We merely provide mechanisms for them to have choice. It does not require that anyone take any step at all.

But when you are very pragmatic about the problems we face, if you look at Mr. Taylor's community where there is no fire station, there is no police department, there is no school, there is no bakery, there is no daycare, who goes in first?

We have to have levee restoration first, environmental remediation second, to get the bad stuff out, and then we need to prepare large tracts of land for development to occur. The plan can be generated at the local level. The debt that will be issued will be approved by the Treasury.

The commission, which—will be a presidentially-appointed commission with the Governor submitting names for positions on the

commission to be appointed by the President, and it's the meeting of what I call taxpayer accountability to your constituents with local planning saying how we would like to have resources deployed, done in the full light of day where everybody can understand where their stake is in the future development.

It is not an attempt to take anybody's property away from anybody.

Ms. WATERS. Is the debt scored against the budget?

Mr. BAKER. No, it is not. And let me also quickly add that if this tract looks like this table, and it's clean, and we have a plan developed by the community, and we have 10 guys who come in and submit proposals, then the commission can accept which proposal they think makes the most sense, not just from a taxpayer view, but from a community view.

So if a guy has got green space, he's got all sorts of community services involved in his proposal, that's the proposal we take, and that's the taxpayer take-out. They buy the land back from the commission for their development purpose. So that's where the taxpayers get some relief.

This is different. We have never done it this way before, but there are models. We have had three different Government agencies in our history which have been real estate acquisition and disposition entities, and this is modeled after those.

Ms. WATERS. But a little aside from this—and if you will bear with me, Mr. Chairman—I had not intended to ask this question, but because I am so deeply involved in the issue of eminent domain, I want to ask it of you now.

As you know, the Supreme Court decision in Callo basically allows for the taking of private property for private use. Would you support efforts that are being put together here in Congress that will protect those homeowners from having their property taken for private use, private property for private use?

Mr. BAKER. Certainly. And as I said at the outset, if an individual chooses not to participate, wants to take their land, as it is, without any—

Ms. WATERS. That's okay. That's fine. I got that.

Mr. BAKER. And secondly, the only utilization of the authority of eminent domain would be if you decide to sell, and if you are negotiating price—and keep in mind, you have decided to sell, and you want to move on—that a dispute as to value will enable us to take property and then litigate value in court so the development may proceed.

But it is only after you decide that you want to dispose of your asset that the right of eminent domain may be deployed. And it comes after a very extensive process. But as to utilization of an individual's property—

Ms. WATERS. In the taking of land for a public purposes—

Mr. BAKER. Correct, I understand.

Ms. WATERS.—fair market value is decided. What would be different in this situation that you are describing?

Mr. BAKER. Well, only that the individual thinks the fair market value is different from that established—

Ms. WATERS. But that's not how it works in eminent domain for public purposes. An individual may ask \$1 million for a \$200 piece

of property, but fair market value ends up ruling the assessments that are done.

Mr. BAKER. You do have a judicial right to dispute—

Ms. WATERS. Yes.

Mr. BAKER.—to go to court—

Ms. WATERS. Yes.

Mr. BAKER.—to litigate that value. And that's all that I am saying. While that litigation dispute is ongoing, you cannot then hold up the recovery of a community where your property is essential for that public purpose to proceed.

Ms. WATERS. So you would support, under some circumstances, the taking of private property for private use?

Mr. BAKER. In this case, it's taking a private property for a public use. The restoration of communities is a public use. If I were going to take your property and turn it into a casino, I would have a problem with that. If I want to take your property and turn it into a city, I think that's a public use. What we are doing here is restoration of cities.

Ms. WATERS. Well, that is going to be an issue that a lot of people would have to take a very close look because the implications are so great, and we—this is a great opportunity to watch and see what happens, not only with that Supreme Court decision, but what we are able to formulate here, as public policy, to deal with that particular issue.

And finally, let me just ask you some questions about mapping because you are very knowledgeable about the flood insurance program, and one of the big complaints, as I remember it, is that the mapping is outdated, that it did not take into consideration, often times, the flood plain areas, et cetera, et cetera.

And if that is true, does Government bear some responsibility in a very special way if people thought they were not at risk because of the outdated mapping or the incompetent mapping in these areas?

Mr. BAKER. You are correct. A flood is an animal. It changes shape every day. If you are living in a community that historically had no flooding problem and there is a development above you in the flood plain—a shopping center where now you have concrete where there once was grass—if downstream maintenance by another political subdivision has not kept pace and there is growth in the drainage outlet so you have more water coming down more quickly with an inhibited ability to drain water, historically, that got out, in consequence is the person in the middle of that pipe gets flooded.

It's not of their own making. It's not even within their political jurisdiction. But the consequence is water is in their home.

The mapping really needs to be done almost annually because the dynamics of development and the inhibitions to drainage are continually changing. We have snapshots. And we say, "Because you look like this, in March of 1984," or whatever the date might be, that determines whether or not you are compliant with the rules. That is a very unfortunate system.

Given our technological capabilities today, it ought to be an annual assessment requirement. At least a fly-over with aerial photography—

Ms. WATERS. Will that be reflected in your legislation?

Mr. BAKER. My legislation only deals with the recovery of the—

Ms. WATERS. It does not deal with the mapping problem?

Mr. BAKER. That's correct.

Ms. WATERS. Okay. One more—this is—I'm so sorry.

Mr. BAKER. I've got one answer left.

Ms. WATERS. I beg your pardon?

Mr. BAKER. I said I have one answer left, so let's—

Ms. WATERS. No, I bet you got a lot. I've never known you not to have an answer.

[Laughter.]

Chairman NEY. Let's just compromise, one question and one brief answer.

Ms. WATERS. Well, maybe I don't have another question. So you can reserve that answer.

Mr. BAKER. I will save it for next time.

Ms. WATERS. No, you give it to somebody else. I know you are just waiting to do it. Okay, thank you very much.

Mr. BAKER. I thank the gentlelady—

Chairman NEY. If there are no further—Mr. Neugebauer?

Mr. NEUGEBAUER. Thank you, Mr. Chairman. I was down in New Orleans last Sunday and saw the tremendous devastation, not only just in the New Orleans area, but then we flew out to the LaFayette area and flew over the rural areas. And you know, we've got people who have lost all of the infrastructure that's necessary to carry on their agricultural activities.

I think in some ways I associate myself with both of your remarks because one is the frustration that we have insurance companies that are carrying insurance in that area, and yet they have excluded, you know, maybe the greatest risk in those storms.

I know that, from a home-building standpoint, being a former home-builder, we have done a lot of innovation as far as building new structures and buildings to where they are able to sustain the high winds of hurricanes. And so, from a wind standpoint, we have been able to mitigate a lot of the damage that occurs from the wind.

But I almost think, Chairman Baker and Congressman Taylor, I mean, one of the things we may need to look at is coastal insurance and not just hurricane insurance or flood insurance. But maybe what we need to look at—and I agree with what the gentleman said about the technology today—we have the ability to fly over those areas, digitize them, and then model what could occur in certain kinds of storms.

And certainly we're not going to be able to model every storm that occurs, but I think we can do a better job of modeling that.

Then, I think we've got to take that modeling data to the insurance industry and say to them, "Let's come up"—and I think also to allow people to carry coverage that the risk they're taking, that if I'm going to go build a \$1 million home on a beach area, that I am responsible for covering the risk that I am taking. But we have to provide a product for them to cover that risk.

And I have dealt with flood maps, and they are easy to amend. And basically, what we're talking about is rising water in a rain-

storm, most of the time of just falling rain or rising water in—from other drainage areas.

But I think one of the things that's not in place, and what's so terrible about that, is that we have got people in three States now waiting to see what the United States Congress is going to do so that they can get on with their lives.

Where if in place they had a coastal coverage, it's a question of adjusters coming out and saying, you know, "Here is—you have sustained a loss, and here is your check," and then people can make the decisions that they need to make to go on with their life.

Chairman Baker, I like your idea because one of the things that struck me when I was in New Orleans, being in the land development business, is that what needs to happen is there needs to be a market-driven activity developed into that plan. We can't assume that everybody is coming back to that location. And there may be areas that are not going to be adequately protected in the future, and those areas will have to be dealt with.

I want to look more at your plan, but I do like the fact that it provides a basis for some private activity. I think that if we send a signal to those States that the Federal Government is going to come in here and try to fix all of this, the private sector will stay home. I do not think they will participate.

But I think if we provide an adequate environment where the private sector can come and participate, where we have then a plan in place, or a coastal coverage in place, where if I'm going to come back in to New Orleans, or going to come back in to Mississippi, that—and I'm going to build that home—that if I build it, I can cover the risk that I am taking of building that.

So I think a multi-faceted plan has got to really think coastal flooding, and not just certain kinds of storm surges, but what happens in these catastrophic situations and with the understanding to the insurance industry that we can't cover every risk. There are just certain things that happen. I mean, who knew that 9/11 was—we were going to be worried about airplanes flying into buildings?

But I do believe today, in some cases, the flood insurance program does work. But I think what we have seen in the coastal areas is that we do not have an adequate one. And it has got to be one—and as you said, Chairman Baker—where we encourage participation.

And you can do that in two ways. You can in the quality of the product, but I think you also have to say to Randy Neugebauer that, "If you come and build that million dollar house on the beach, and you don't cover the insurance, it's your risk, and you're not going to ask the American people to take that risk for you." And I think that's a fair thing.

So, I look forward to having some meaningful debate with both members because I think we have seen a hole in the system that we do need to address.

Mr. BAKER. I thank the gentleman, I just want to make a brief response in that in my capacity as chairman of capital markets, which has jurisdiction over insurance matters, we will have a very thorough examination of the practice of how we address the exposure and the risk.

As insurance is constructed, you spread risk across a broad number of participants on the belief that, ultimately, only a certain number of people will make claims and, therefore, it is actuarially sound.

Mr. NEUGEBAUER. That's right.

Mr. BAKER. Today, we have a concentration of loss without a broad distribution of premium payers. And I think it's pretty evident one of the remedies that might be pursued.

Secondly, a discussion going forward about wind-driven water versus wind-driven trees is a pretty intriguing one. And the difference during the storm, if your house burned down you got the face value of the policy. If you bought more insurance than the loss, and it burned, you get the face value. If it's wind-driven, you get actual loss; and if it's flood, you get \$250,000. I don't care what you want to buy. There is no logic to that insurance strategy.

And so, we need to have good public discussion, and going forward, talking about how—the risk people face, living in coastal areas.

And the last point. People have to live in New Orleans. Your home heating oil bill will reflect that this year. Your price at the gas pump will reflect it. If you are a Midwestern farmer exporting corn or grain, 65 percent of that goes through our ports. If you like seafood, 32 percent of the Nation's seafood—I mean, fir, for goodness sakes, comes out of Louisiana. I mean, I didn't know that.

We are a big producer of matches. Where did that come from? This area is economically essential, and people are going to go where the jobs are. Therefore, people are going to live next to the coast and have this risk, and we need to have an adequate insurance net to keep a catastrophic loss to the American taxpayer.

Mr. TAYLOR. If I may?

Chairman NEY. Mr. Taylor?

Mr. TAYLOR. To your point—and I guess I'm a lot closer to this than I wish I was, since I'm one of those people whose house now looks like that debris line—what's really frustrating is—and I will point to myself—when the agent came to what was my house, walks around a piece of tin roof that's a half-mile back, piece of slate floor over here, sink is quarter of a block over that way.

And what they do is they say, "Well, we're prepared to pay on your flood insurance," to which I reminded them that's mighty generous of them. "That's Federal money, not"—I won't name the company, "—not your money."

He says, "Well, we're not so sure about this wind policy." What really tens of thousands of people are seeing now, despite the full-page ads being run by the insurance industry saying, "We're there for you," is the insurance industry really trying to find every reason that they can not to pay the claim.

And it really is the little individual down on his luck, worst of circumstances, out of a house, out of a job, still got that mortgage to pay, and the great big insurance company saying, "And by the way, where is the evidence for you to prove that it was water and not wind, and wind and not water," because they're trying to play it both ways.

One of the things that I would hope would come of this—it was after Hurricane Camille, the devastation of Hurricane Camille,

that this Nation started the Federal Flood Insurance Program so that people could pay to mitigate their own risk, those people who live in areas that are going to have hurricanes.

But what we have seen is that when you leave a loophole, the smart guy is going to figure out a way not to pay. If the private sector doesn't step up to the plate—and I will leave that “if” there—then I think we, as a Nation, are in the business of looking out for people.

And if the private sector won't do it, then I think we, as a Nation, have a responsibility to do it. And maybe it shouldn't be called flood insurance; maybe it should be called natural disaster insurance so that we, as a Nation, aren't trying to find a reason not to pay people claims, people who have paid their premiums faithfully for 10, 20, 30 years. Maybe we, as a Nation, will treat them a little bit better.

And by the way, Congressman Baker is exactly right. We, as a Nation, doing a pretty good job of paying our claims on the flood insurance program. Yes, the losses are limited to a quarter of a million dollars—and again, in a lot of places that's a lot of money. For some of these newer homes that have been put up in the past few years, that doesn't begin to pay for them. And certainly, raising the cap absolutely is something we need to look into.

But the other thing is, if the private sector isn't going to treat the people of Mississippi, of Louisiana, of Texas, of Florida, South Carolina, wherever it occurs—80 percent of all Americans in the next 50 years are going to live within 50 miles of the coast. And if the private sector is not going to step forward and treat them properly, as someone who has voted for almost every single tort reform measure that has come before this Congress, I will be the first to say if they're not going to do their job, then I think our Nation has to step up and do it.

Chairman NEY. I want to thank you. I want to also remind members we can continue to question, ask questions of the members. We have a vote at 11:45. We do have an, I think, important panel with Mr. Maurstad and Mr. Jenkins, but again, if you would like to ask questions—gentleman from Massachusetts?

Mr. FRANK. Let me first yield to the gentlewoman from California.

Chairman NEY. All right.

Ms. WATERS. Thank you very much, and I will be quick with this, and I would like to ask both of the members if you are willing to support the cost of what you are advocating even if there are no offsets, as it has been discussed by the administration—because I think you have good ideas—when you establish a commission, for example, it costs money. And some of the other aspects that you can't enough determine now will cost money.

And I am feeling very strange by the rumblings that I am hearing that we can't pay for making these citizens whole and taking care of this problem unless we find some deep cuts in other places that offset. How do you feel about that, and are you going to stand up for your constituents even if it costs money to do so that you can't find offsets for?

Mr. BAKER. I come to agreement with you, Ms. Waters, and from a slightly different perspective. To a great extent, I am so over-

whelmed by the Nation's generosity, private and public dollars that have been made available to us; we have not been the recipients of that kind of assistance before.

But you have written one check. How do I come back to you and say, "I'm going to cut your programs and make you pay twice?" I'm asking you to make two commitments to me. I'm not going there.

Now, I don't know what the thinking is. The plan I'm putting forward has a provision for the sale of property at the end to get taxpayers some money back. I feel I've got to do that. I feel we need to be very transparent, very accountable, show you where every dollar goes, and if you find something that's wrong, let's correct it. That's the way we—at least I believe—we should conduct ourselves in this disaster.

Chairman NEY. Mr. Taylor?

Mr. TAYLOR. Ms. Waters, I—my vote sent over close to 2,000 young Americans over to Iraq to die. My vote also sent billions of American dollars over there to build schools, build roads, build water lines, build sewer lines. I didn't ask for an offset to help the people of Iraq. I'm not going to ask for an offset to help the people in Mississippi, Louisiana, or Texas.

Ms. WATERS. All right. I yield back to the gentleman from—

Mr. FRANK. I thank the gentlewoman.

Ms. WATERS. Thank you.

Mr. FRANK. And let me just say that I am impressed by the dignity, as well as the moral seriousness, of both answers, and I hope that it becomes the public policy.

I would just say that the gentleman from Louisiana, he has also been in the forefront of our effort—because one of the things we're going to have to do, and obviously there is room for the private sector, but when it comes to building housing to be inhabited by people who are \$40,000, \$30,000 a year in income and below, there should be no way that's going to be build without some public—some other source of funds, particularly in an economy where people have lost their jobs and have lost what they had.

So I think that makes it all the more important to pass the Affordable Housing Fund, and the gentleman from Louisiana has been working diligently on that. And I hope that next week we can get that through, and that would be another source of money.

Beyond that, I just wanted to ask Mr. Taylor—and I must say this has now started to hit me. People may have been reading or watching on television the story of a dam in Massachusetts that is on distress. It's in my district, in the city of Taunton. I was up there yesterday, along with my Senators bringing our considerable engineering expertise to the job and maybe a little money as well.

But—and it was pointed out to me by Mr. Riley on my staff that, you know, one of the problems is, I guess, if you live behind the dam, you don't have to get flood insurance. I've got people, it now turns out, in my district who may be facing flood damage who aren't insured. And one of the things I will do as of next week when this crisis has passed is to do something that I wish I had thought of before, which is to begin to tell people, "You better buy flood insurance, even though it's optional."

But let me ask Mr. Taylor, because that's something for the future. But for those people he is talking about—and I know there

is some reference to million dollar homes, they're doing this—how many million dollar homes in your district are we concerned about, Mr. Taylor?

Mr. TAYLOR. Again, Mr. Frank, I hope I have made it clear—I'm first to admit I'm bad to mumble—I hope I made it clear we're only asking in the bill that you and a number of others have helped me put together to pay up to the amount that people had insured themselves in the wind pool, or a quarter of a million dollars, which is the existing limit in the Federal Flood Insurance Program, whichever is less.

Mr. FRANK. Thank you.

Mr. TAYLOR. If someone only thought enough of their place to insure it for, for example, \$160,000 in the wind pool, there is no reason for the taxpayers to insure it to the—

Mr. FRANK. All right, then let me ask you this. And I do think—and you've done this, and it's painful, but I—and we often, when we are focused on legislation, talk about what people think will be the problems if we pass it.

If we do nothing, if we don't pass the bill that you have sponsored, that I'm proud to co-sponsor, or we do nothing else to deal with the situation and the people whose housing losses will not be covered—and there will be lawsuits and things, but I'm not optimistic, I must say, and you've said the notion of—likelihood of us passing a bill that makes that decision about what coverage is, I think, is even less likely than your bill—if there was no congressional action, if things don't change and the current situation doesn't change, what happens to the people in your district?

Mr. TAYLOR. Well, again, I am very appreciative that the President of the United States has been down to the district probably five times. I'm very appreciative that many of my colleagues have taken time out of their busy schedule to go see. Because even though you can see it on television, you really don't get a grasp for just how bad that is until you stand and look at that mountain of debris.

The likelihood that tens of thousands of south Mississippians will lose their houses as a result of this is extremely high. The President's plan calls for tax breaks for people who come in from outside, invest in places like these down in Mississippi, and then after they fix something up and sell it high, they get to get those profits tax free.

Well, that's great for the fellow who comes in and preys on the misery of the poor guy who has got to sell his house. It does absolutely nothing for the poor guy who has got to sell his—

Mr. FRANK. What happens—if they lose their houses, what is the prospect for all these people—working people we're talking about, maybe making \$30,000 or \$40,000 a year—what is the prospect that, having lost the house they had and lost the money they had sunk into it, and lost the downpayment, lost whatever mortgage payments, what is the prospect for large numbers of them getting a new house? How is that going to happen?

Mr. TAYLOR. I think, Congressman Frank, you can answer your own question. I mean, two bad things can come out of this. They can have on their record that the bank foreclosed on their mortgage, or they can have on their record that they, you know, bought

a house for \$100,000 and sold it for \$20,000 and that because of that then, therefore, could not pay off their credit card bill, could not pay off other loans that they may have had out. Their credit history is probably ruined from that point, and their chances of buying another house have been substantially diminished.

We can try to make those people whole. Not even whole, just make them closer to where they were the day before the storm. Every one of them would rather have their house back. But at least we're saying that we, as a Nation, are going to step up and try to help you save your house. And again, I appreciate my colleagues who have signed on to this bill.

Believe me, if we could think of a better way, I would welcome anyone's thoughts on a better way to make these people whole.

Mr. FRANK. Thank you. And Mr. Baker indicated that he had something to add.

Mr. BAKER. I just wanted to contribute. I come at it with a similar motive but a slightly different direction, with the Recovery Corporation, where we do provide for a mechanism not to make whole, but to provide for some reimbursement at the owner's choice: cash, move on, stay part of the new development—

Mr. FRANK. Let me ask you, too. Your bill is Louisiana-specific. Is there any reason why that couldn't be broadened, or—

Mr. BAKER. The only reason it is Louisiana-specific is because of the varying amount of debt that would be issued between Texas, Louisiana, Mississippi, Alabama, and we don't want to have States competitive within Treasury—

Mr. FRANK. But the logic of your proposal would be that each State should have their own—

Mr. BAKER. Yes, that is correct.

Mr. FRANK. Thank you. Thank you, Mr. Chairman.

Chairman NEY. I would like to move on to the second panel unless members have a compelling desire to ask questions.

Mr. PEARCE. If you don't mind me making a quick comment—and I understand the sensitivity of the matter—I will just tell you—it needs better explanation—but in understand that we need to get to the next panel; the devastation is apparent. But I will tell you that there are single individual losses that occur every day that, because they don't have the visibility, will never get paid. And we are asking people who are devastated individually to pick up the burden.

And I would use examples of ranchers on the border that, due to the policy of our U.S. Government, we have fences stolen and the Government will not reimburse that. And people say, "Well, they should be ranching at a better place; they should have known," same things that Mr. Taylor is saying, that they should not be on the border of where the people come up to the border and steal their goods.

Just south of my district in Texas, the town of Zaragosa, Texas, about 15 years ago the entire town was blown away by a tornado, and it was not rebuilt with Federal funds.

When we look at compassion—someone said if the private sector is not going to pay, we, as a Nation, should pay—when we begin to use the Government for compassion, I will tell you it is very difficult because compassion to one is uncompassion to another. And

if we go back and review the decision to pay the people \$1 million-plus at 9/11, it was full of compassion, full of heartfelt understanding of the loss.

But what it said to the families—my district was the one who was at Bataan, it was the Mexico National Guard that served and died in the Bataan Death March—and what it said to those people who lost loved ones in Bataan is that, “Your loss is somehow not compensable.” That’s not a very good term, but we are not going to compensate your loss, but we are going to compensate the victims of 9/11 because it is so much more apparent, and it is so much more—we have got the political desire to do that.

I will tell you that we are all going to wrestle with this problem. I understand the economic devastation, but keep in mind it was in my district, a district with no earthquake experience throughout our history, and about 15 years ago an earthquake came. We’ve got oil wells which stick 7,000 and 10,000 feet deep, and those oil wells were completely broken.

There was no one there to say, “We should pick up the pieces for you; we should try to recreate the jobs; we should do these things.” And I will tell you that as emotional as it is, if we pay for one and don’t pay for every one, we are making some judgement errors that we will live with a long time. Thank you, Mr. Chairman.

Mr. TYLER. You know, I hope you know I pride myself on my desire to balance the Nation’s budget. And we probably look at this differently. I voted against almost every tax break because I didn’t see how we could simultaneously increase spending, cut taxes, and somehow make it all work, and prepare for things like this and future wars.

I guess what is different is the scale, quite frankly. I also feel fortunate to know people who have survived the Bataan death march. I know a guy who at 16 received the Congressional Medal of Honor, lied about his age to get into the Marine Corps, dove on two hand grenades at the Battle of Iwo Jima. He’s a south Mississippian.

There are 38,000 people in south Mississippi who don’t have homes. Seventy percent of the people in my home county either have no home or now own a home that is uninhabitable. I think it’s the sheer scale of it. And I do understand we can’t do everything for everybody.

But, you know, there is going to be some cynic out there—maybe one of the next panelists—who is going to say, “They should have known better.” You know, that blind cleric by the name of Raman got a guy to drive a truck full of explosives into the twin towers with the idea of setting off an explosion in the basement, toppling one tower into the other, and killing all the occupants. That happened around 1994.

I guess a person could say, “Well, those people should have known it was a target of terrorists,” but I didn’t say that. I voted to help make those people’s—I can’t bring back the people who died, but I tried to make the people—the lives of the survivors a little bit better. I thought it was a prudent thing for our Nation to do.

And you’re right. When you consider that compared to what happened at the Bataan Death March, or the people in World War II, the guys who were slaughtered on the beaches in Normandy, you

can't make every wrong right. But you can do some things. And those things we can do, we should do.

Chairman NEY. Thank you. Mr. Blumenauer?

Mr. BLUMENAUER. Mr. Chairman, I appreciate your courtesy in permitting me to sit in on this. I want to commend these two gentlemen for the big picture that is being offered up. And I am hopeful that there is a way to approach it in the spirit that I think in which it is offered.

I think we heard people ask for tweaks. We have been privileged to work with Mr. Taylor as he has brought this concept forward. But I think we are putting on the table two big items in terms of scale of reconstruction and type of partnership.

I commend Mr. Baker for calling the question, and look forward in various committees, how we can come together to see what can come from this challenge. And his approach is the biggest scale I have seen to this point, and I think it is worthy of serious consideration.

And I appreciate Mr. Taylor and the work that he has done in terms of calling the question about the nature of the flood insurance program and how this committee has already acknowledged that more money is going to be needed anyway. This is an opportunity to deal with this issue in a more comprehensive way keeping the integrity of the program, but dealing with people who have really been taken unawares.

I appreciate the spirit with which both gentlemen have offered their proposals and the way the committee has been approaching them. And I think there are lots of us on the outside world that would really love to continue working with you and with them because this is the sort of thing that I think is ultimately going to get us to the situation and resolving it.

Chairman NEY. I am sure that this will not be the last of these discussions. Any other members? Mr. Melancon?

Mr. MELANCON. I want to thank both of my colleagues, Mr. Taylor and Mr. Baker, who I am proud to say I served with. The efforts are good. We have got a long way to go.

To the gentleman who was concerned just a minute ago, just for the record, tornadoes are covered by property insurance policies. So if they rebuilt, if they had insurance, they didn't have a problem.

This is a situation where people had insurance, and they are not covered. And this is a situation where in St. Bernard Parish alone I think the number is 24,000 or 34,000 homes are uninhabitable and not covered if the insurance companies have their way, by the policies that they thought would take care of them.

Mr. BAKER. If the gentleman would yield on that point, I have also learned that when a properly conducted business owner acquired business interruption insurance, if your supplier was in Orleans and the supplier was wiped out, you're covered. But if your business was in Orleans and you were flooded, you're not covered.

Mr. MELANCON. That's right.

Mr. BAKER. So smart business people buying product they thought to protect them prudently turned out not to be so prudent.

Mr. MELANCON. Thank you, sir.

Chairman NEY. Any other members?

[No response.]