

GENE TAYLOR  
4TH DISTRICT, MISSISSIPPI

COMMITTEE ON ARMED SERVICES  
COMMITTEE ON TRANSPORTATION  
AND INFRASTRUCTURE

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June 12, 2006

Hon. Alice S. Fisher  
Assistant Attorney General, Criminal Division  
U.S. Department of Justice  
950 Pennsylvania Avenue, N.W.  
Washington, DC 20530

Dear Ms. Fisher:

I am writing to request a meeting with you to discuss the need for the Katrina Fraud Task Force to investigate the claims adjustment practices of the insurance companies that contract with the National Flood Insurance Program (NFIP). The task force should examine whether the companies are defrauding the federal government by improperly attributing damages to federal taxpayers that should be paid by the insurance companies themselves.

I believe there is overwhelming evidence that several insurance companies did not act in good faith and did not uphold their contractual obligation to act as fiscal agents of the federal government. These insurers applied very different standards to flood insurance claims than to their own windstorm claims. Their claims adjusters prejudged that all damage was caused by flooding unless presented with indisputable evidence that flooding could not possibly be the cause.

The flood insurance program has had to borrow \$18.3 billion to pay flood insurance claims from Katrina, Rita, and Wilma. NFIP will reach its borrowing authority limit of \$18.5 billion by the end of June or early July. Within the next few weeks, Congress will vote to increase the borrowing authority of NFIP to \$25 billion. There is no prospect that the flood insurance program will be able to collect enough money from premiums to ever repay the \$25 billion.

NFIP contracts with private insurance companies to sell flood insurance policies and adjust flood damage claims that are guaranteed by the federal government. The companies withhold funds from the flood insurance premiums to pay agent commissions and to reimburse their marketing, operating, and administrative expenses. NFIP also pays companies for adjusting flood claims and reimburses their normal expenses incurred during claims adjustment. Companies may also be reimbursed for special adjustment expenses, including attorney fees, engineering fees, and other investigative fees.

The regulations (44 CFR § 62.23) that govern the agreement between an insurance company and NFIP clearly establish the company's obligations to the federal government. The company agrees to apply the same standards when adjusting flood insurance claims as it applies to its own claims. The company agrees to act as a fiscal agent of the federal government "to assure that any taxpayer funds are accounted for and appropriately expended." The company assumes "the entire responsibility for providing a proper adjustment for both combined wind and water claims and flood-only claims."

Katrina caused an unprecedented amount of damage from hours of destructive winds followed by a record storm surge. Insurance companies have an obvious conflict of interest when adjusting claims in the coastal areas that suffered from both the winds and the water. Despite the obvious need for detailed oversight, neither NFIP nor any other federal agency is conducting any significant scrutiny of the insurance claims.

Hurricane Katrina's winds caused substantial damage more than 200 miles inland. President Bush designated 49 counties in Mississippi as eligible for both individual assistance and public assistance. Hundreds of thousands of homes in 46 of those counties and in the inland areas of the three coastal counties suffered wind damage but no flooding. In these cases, where they could not possibly blame flooding, the insurance companies have paid wind claims.

The Navy Meteorological and Oceanographic Command at Stennis Space Center has proven that the Mississippi Coast endured five to six hours of sustained hurricane-force winds before the peak of Katrina's storm surge. Katrina's storm surge inundated areas near the Gulf of Mexico, the Bay of St. Louis, Biloxi Bay, and the mouths of coastal rivers. These areas of the three coastal counties also experienced stronger winds for a longer period of time than did the inland areas of Mississippi.


In these areas, insurance adjusters for some companies have assigned all damages to flooding unless there is indisputable evidence that flooding could not possibly be the cause. The companies may concede that damage above the high water mark must have been caused by wind, but they have assigned all other damage to flooding covered by the federal government. This practice assigns the largest possible share of damages to the federal flood insurance program, while allowing the insurance company to pay only where wind is the only possible cause.

The most egregious cases involve the thousands of homes near the coastline that were destroyed by the worst of both the hurricane winds and the water. Some insurance companies acted in good faith and paid combined wind and flood claims, but a few of the largest insurance carriers in the nation assigned all the damages to flood insurance guaranteed by the federal government. These insurance companies have paid thousands of wind claims on properties located hundreds of miles inland, yet have denied wind damage claims along the coastline where the winds were strongest. One insurer claims that its insurance policies in Mississippi allow it to assign all damages to flooding if both flooding and wind damage occur. That position is in direct conflict with the company's contractual obligations with the federal flood insurance program.

The National Flood Insurance Program is not scrutinizing these flood-only claims. The weak federal oversight has enabled the insurance companies to manipulate the adjustment process at the expense of federal taxpayers. The Katrina Fraud Task Force should investigate the claims practices of these insurance companies to determine whether they defrauded the federal government, whether they conspired with one another to do so, whether they coached or coerced adjusters and engineers to skew damage assessments, or otherwise violated their contracts with the flood insurance program.

Thank you for your attention to this important matter. I look forward to the opportunity to meet and discuss this matter with you. Please have your office contact Courtney Littig in my office to schedule a meeting.

Sincerely,



GENE TAYLOR  
Member of Congress

GT:jbm