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**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515-2404**

**STATEMENT OF**

**U.S. REP. GENE TAYLOR**

before the

House Committee on Financial Services

*Federal Housing Response to Hurricane Katrina*

February 6, 2007

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Thank you, Chairman Frank, for calling this hearing. Thank you also for all the help you have provided to my constituents since Katrina.

The flood insurance buy-in bill that you and Chairman Watt drafted, to help homeowners who had homeowners insurance but not flood insurance, eventually led to the Mississippi and Louisiana homeowner assistance programs that were funded through the CDBG program. Although the House Republican leadership and the Bush Administration blocked our bill, Sen. Cochran was able to gain approval for homeowner assistance using CDBG funds.

The Mississippi program is very similar to our bill except that it took a year for HUD and the state to create and implement the new program. Our bill would have provided relief much more quickly by allowing homeowners to file flood insurance claims, up to the amount of their homeowners policy, that would be funded with disaster appropriations.

We are very grateful for the CDBG funds, but HUD and the state created a slow, bureaucratic, procedure where the situation called for expedited action. Homeowners had to wait and wait for assistance while the state tried to verify every detail with insurance companies, lenders, FEMA, SBA, and other agencies. Those companies and agencies did not have extra personnel or motivation to quickly verify each application. Homeowners should have been able to provide copies of their documents, sign affidavits, and then get

their checks, with the clear understanding that any fraud would be prosecuted to the full extent of the law.

While the state was treating every disaster victim with suspicion, the Mississippi Development Authority, the state's economic development agency, saw no problem giving a contract to the State Senate Finance Committee Chairman and two other state legislators. I am sorry to report that the State Ethics Commission said it was okay for a state agency to award a contract to a legislator who has influence over that agency so long as only federal funds, and no state funds, are involved. I hope your committee will pass language to prevent that in the future.

In addition to the housing assistance grants, Mississippi is using the CDBG funds to build water and sewer infrastructure, to rebuild public housing units, to rebuild utility infrastructure, and to temporarily subsidize homeowners insurance in the state wind pool. While I agree that those are important needs on the Coast, I want to be sure that homeowners receive all the assistance they should get from the grant program. For that reason, I ask the committee to require full accountability in the grant program. There should be a list of who was paid and how much they were paid. These are federal tax dollars, so we need to know that they were spent fairly and appropriately.

Seventeen months after Katrina, South Mississippi's recovery is still delayed by the refusal of several insurance companies to pay fair wind claims. I wrote to Chairman Frank asking that the Financial Services Committee conduct investigative hearings about the denial of thousands of Katrina wind claims wherever insurers could blame flooding. I am very grateful that Mel Watt, Chairman of the Oversight and Investigation Subcommittee has scheduled a hearing for February 28. I intend to lay out the case at that time for a full investigation of the actions of the insurance companies and the engineering firms, adjustment firms, and other contractors they used to deny claims.

For thousands of destroyed properties in Mississippi, insurers assigned all damages to flooding covered by the National Flood Insurance Program and none to their own

windstorm policies. The Mississippi Coast suffered several hours of very destructive hurricane winds before inundation by the storm surge. Insurers paid billions of dollars of wind claims inland, where they could not possibly blame flooding. In the 79 counties north of the three counties on the Gulf, insurers paid more than 250,000 claims totaling more than \$3.5 billion. Claims were paid in every county in Mississippi, as far as 300 miles inland.

Insurance claims data from the three Gulf Coast counties show that the National Flood Insurance Program and the Mississippi wind pool paid much more than did private insurers. NFIP estimates it will pay approximately 18,000 flood claims in the three Mississippi Gulf Coast counties for a total of \$2.6 billion. That is an average of \$142,000 per claim, where the average policy was \$148,000. HUD will pay an additional \$3 billion in CDBG funds to assist homeowners who did not have flood insurance.

I am convinced that insurance adjusters billed the flood insurance program for some damage that should have been covered by private wind insurance. Last year, Mr. Frank and Mr. Oxley helped make sure that I could offer an amendment to the flood insurance reform bill to have the Inspector General of Homeland Security investigate those claims. My amendment passed by voice vote. Although the Senate did not pass the flood insurance bill, Senator Lott was able to add that provision to the Homeland Security Appropriations Act. The Inspector General is required to report his findings by April 1.

Insurance companies have a conflict of interest when we allow them to decide whether to assign damages to the federal flood program or to themselves. The flood insurance program does not provide sufficient oversight to protect the federal taxpayers. The contract between NFIP and an insurance company requires an adjuster to represent the flood program as well as the insurance company. The federal regulations require the adjuster to make a proper adjustment, and apply the same standards to the flood claim as to the wind claim. That certainly did not happen in South Mississippi.

There is documented evidence of cases in which insurance companies or their contractors pressured engineers to revise their reports or ordered a second report if the first report concluded that damage was caused by winds. Once they learned they could not control all of the engineers, State Farm simply stopped ordering engineering reports. Instead, the company sent a "Wind-Water Claims Processing Protocol" from its headquarters in Illinois instructing their adjusters to pay nothing on a wind claim if any of the damage could be caused by flooding.

State Farm used Haag Engineering and adjusters from E.A. Renfro to justify denials of wind claims. Both companies have a history of questionable actions, including a 2006 decision against State Farm's denial of 1999 tornado claims in Oklahoma. The Oklahoma jury found that State Farm acted with malice and recklessly disregarded its duty to act fairly and in good faith by employing Haag Engineering and E.A. Renfro. At the February 28 hearing, I will ask Mr. Watt's subcommittee to investigate State Farm, Haag, Renfro, and any other partners that conspired against consumers and taxpayers.

Later this week, I intend to introduce a bill to create a multi-peril insurance option to the flood insurance program. That bill will create a new program to provide wind and flood coverage in one policy. In order to be fiscally responsible and honor our commitment to pay-as-you-go budgeting, the premiums would be based on the actual risk with no subsidy. If this bill is enacted, property owners will be able to buy insurance and know that their damage will be covered. They would not have to hire lawyers, engineers, and adjusters to try to prove what damage was caused by wind and what was caused by water.

If insurance companies get away with placing the burden of proof on homeowners to prove that damage was caused by wind, I am afraid that many people will not evacuate the next time a major hurricane approaches the Gulf Coast. I have had friends tell me that they will stay behind next time with video recorders to document the damages.

There is an urgent need for a wind and water insurance policy for the 53% of American who live in coastal states. In recent months, insurance companies have cancelled wind

policies in coastal areas from Massachusetts to Texas. In state after state, companies threaten to leave unless the state approves higher deductibles, higher premiums, and places the highest risk areas into state-sponsored risk pools.

I am grateful that Chairman Frank has committed to holding a hearing on the multi-peril insurance bill sometime in March. The bill would ensure the availability of wind insurance in coastal areas. It also would increase the reach of flood coverage among property owners who are at low to moderate risk of flooding.

I look forward to working with the committee on these important insurance issues.