

Union Calendar No. 264

110TH CONGRESS
1ST SESSION

H. R. 3355

[Report No. 110-419]

To ensure the availability and affordability of homeowners' insurance coverage for catastrophic events.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 3, 2007

Mr. KLEIN of Florida (for himself and Mr. MAHONEY of Florida) introduced the following bill; which was referred to the Committee on Financial Services

OCTOBER 31, 2007

Additional sponsors: Mr. ABERCROMBIE, Mr. ARCURI, Mr. BRALEY of Iowa, Ms. CORRINE BROWN of Florida, Mr. CLEAVER, Mr. CLYBURN, Mr. CRAMER, Mr. CROWLEY, Mr. EMANUEL, Mr. FARR, Mr. HARE, Mr. HASTINGS of Florida, Mr. HILL, Ms. HIRONO, Mr. INSLEE, Mr. JOHNSON of Georgia, Mrs. JONES of Ohio, Mr. KAGEN, Mr. LAMPSON, Mr. LARSON of Connecticut, Mrs. MALONEY of New York, Mrs. MCCARTHY of New York, Mr. MCNERNEY, Mr. MEEK of Florida, Mr. MELANCON, Mr. MORAN of Virginia, Mr. RYAN of Ohio, Mr. SIRES, Mrs. TAUSCHER, Mr. WALZ of Minnesota, Ms. WASSERMAN SCHULTZ, Mr. WEINER, Mr. WEXLER, Mr. PERLMUTTER, Mr. DELAHUNT, Mr. JINDAL, Mr. LYNCH, Mrs. CHRISTENSEN, Ms. GINNY BROWN-WAITE of Florida, and Mr. KENNEDY

OCTOBER 31, 2007

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]
 [For text of introduced bill, see copy of bill as introduced on August 3, 2007]

A BILL

To ensure the availability and affordability of homeowners' insurance coverage for catastrophic events.

1 *Be it enacted by the Senate and House of Representa-*
 2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) *SHORT TITLE.*—*This Act may be cited as the*
 5 *“Homeowners’ Defense Act of 2007”.*

6 (b) *TABLE OF CONTENTS.*—*The table of contents for*
 7 *this Act is as follows:*

Sec. 1. Short title; table of contents.

Sec. 2. Findings and purposes.

TITLE I—NATIONAL CATASTROPHE RISK CONSORTIUM

Sec. 101. Establishment; status; principal office; membership.

Sec. 102. Functions.

Sec. 103. Powers.

Sec. 104. Nonprofit entity; conflicts of interest; audits.

Sec. 105. Management.

Sec. 106. Staff; experts and consultants.

Sec. 107. Federal liability.

Sec. 108. Authorization of appropriations.

TITLE II—NATIONAL HOMEOWNERS’ INSURANCE STABILIZATION PROGRAM

Sec. 201. Establishment.

Sec. 202. Liquidity loans and catastrophic loans for state and regional reinsurance programs.

Sec. 203. Reports and audits.

Sec. 204. Funding.

TITLE III—GENERAL PROVISIONS

Sec. 301. Qualified reinsurance programs.

Sec. 302. Definitions.

Sec. 303. Regulations.

1 **SEC. 2. FINDINGS AND PURPOSES.**

2 (a) *FINDINGS.*—*The Congress finds that—*

3 (1) *the United States has a history of cata-*
4 *strophic natural disasters, including hurricanes, tor-*
5 *nadoes, flood, fire, earthquakes, and volcanic erup-*
6 *tions;*

7 (2) *although catastrophic natural disasters occur*
8 *infrequently, they will continue to occur and are pre-*
9 *dictable;*

10 (3) *such disasters generate large economic losses*
11 *and a major component of those losses comes from*
12 *damage and destruction to homes;*

13 (4) *for the majority of Americans, their invest-*
14 *ment in their home represents their single biggest*
15 *asset and the protection of that investment is para-*
16 *mount to economic and social stability;*

17 (5) *historically, when a natural disaster eclipses*
18 *the ability of the private industry and a State to*
19 *manage the loss, the Federal Government has stepped*
20 *in to provide the funding and services needed for re-*
21 *covery;*

22 (6) *the cost of such Federal “bail-outs” are borne*
23 *by all taxpayers equally, as there is no provision to*
24 *repay the money and resources provided, which there-*

1 *by unfairly burdens citizens who live in lower risk*
2 *communities;*

3 *(7) as the risk of catastrophic losses grows, so do*
4 *the risks that any premiums collected by private in-*
5 *surers for extending coverage will be insufficient to*
6 *cover future catastrophes (known as timing risk), and*
7 *private insurers, in an effort to protect their share-*
8 *holders and policyholders (in the case of mutually-*
9 *owned companies), have thus significantly raised pre-*
10 *miums and curtailed insurance coverage in States ex-*
11 *posed to major catastrophes;*

12 *(8) such effects on the insurance industry have*
13 *been harmful to economic activity in States exposed*
14 *to major catastrophes and have placed significant*
15 *burdens on existing residents of such States;*

16 *(9) Hurricanes Katrina, Rita, and Wilma struck*
17 *the United States in 2005, causing over*
18 *\$200,000,000,000 in total economic losses, and in-*
19 *sured losses to homeowners in excess of*
20 *\$50,000,000,000;*

21 *(10) since 2004, the Congress has appropriated*
22 *more than \$58,000,000,000 in disaster relief to the*
23 *States affected by natural catastrophes;*

1 (11) *the Federal Government has provided and*
2 *will continue to provide resources to pay for losses*
3 *from future catastrophes;*

4 (12) *when Federal assistance is provided to the*
5 *States, accountability for Federal funds disbursed is*
6 *paramount;*

7 (13) *the Government Accountability Office or*
8 *other appropriate agencies must have the means in*
9 *place to confirm that Federal funds for catastrophe*
10 *relief have reached the appropriate victims and have*
11 *contributed to the recovery effort as efficiently as pos-*
12 *sible so that taxpayer funds are not wasted and citi-*
13 *zens are enabled to rebuild and resume productive ac-*
14 *tivities as quickly as possible;*

15 (14) *States that are recipients of Federal funds*
16 *must be responsible to account for and provide an ef-*
17 *ficent means for distribution of funds to homeowners*
18 *to enable the rapid rebuilding of local economies after*
19 *a catastrophic event without unduly burdening tax-*
20 *payers who live in areas seldom affected by natural*
21 *disasters;*

22 (15) *State insurance and reinsurance programs*
23 *can provide a mechanism for States to exercise that*
24 *responsibility if they appropriately underwrite and*

1 *price risk, and if they pay claims quickly and within*
2 *established contractual terms; and*

3 *(16) State insurers and reinsurers, if appro-*
4 *priately backstopped themselves, can absorb cata-*
5 *strophic risk borne by private insurers without bear-*
6 *ing timing risk, and thus enable all insurers (whether*
7 *State-operated or privately owned) to underwrite and*
8 *price insurance without timing risk and in such a*
9 *way to encourage property owners to pay for the ap-*
10 *propriate insurance to protect themselves and to take*
11 *steps to mitigate against the risks of disaster by lo-*
12 *cally appropriate methods.*

13 *(b) PURPOSES.—The purposes of this Act are to estab-*
14 *lish a program to provide a Federal backstop for State-*
15 *sponsored insurance programs to help homeowners prepare*
16 *for and recover from the damages caused by natural catas-*
17 *trophes, to encourage mitigation and prevention for such*
18 *catastrophes, to promote the use of private market capital*
19 *as a means to insure against such catastrophes, to expedite*
20 *the payment of claims and better assist in the financial*
21 *recovery from such catastrophes.*

1 **TITLE I—NATIONAL CATAS-**
2 **TROPHE RISK CONSORTIUM**

3 **SEC. 101. ESTABLISHMENT; STATUS; PRINCIPAL OFFICE;**
4 **MEMBERSHIP.**

5 (a) *ESTABLISHMENT.*—*There is established an entity*
6 *to be known as the “National Catastrophe Risk Consor-*
7 *tium” (in this title referred to as the “Consortium”).*

8 (b) *STATUS.*—*The Consortium is not a department,*
9 *agency, or instrumentality of the United States Govern-*
10 *ment.*

11 (c) *PRINCIPAL OFFICE.*—*The principal office and*
12 *place of business of the Consortium shall be such location*
13 *within the United States determined by the Board of Direc-*
14 *tors to be the most advantageous for carrying out the pur-*
15 *pose and functions of the Consortium.*

16 (d) *MEMBERSHIP.*—*Any State that has established a*
17 *reinsurance fund or has authorized the operation of a State*
18 *residual insurance market entity shall be eligible to partici-*
19 *pate in the Consortium.*

20 **SEC. 102. FUNCTIONS.**

21 *The Consortium shall—*

22 (1) *work with all States, particularly those par-*
23 *ticipating in the Consortium, to gather and maintain*
24 *an inventory of catastrophe risk obligations held by*

1 *State reinsurance funds and State residual insurance*
2 *market entities;*

3 *(2) at the discretion of the affected members and*
4 *on a conduit basis, issue securities and other finan-*
5 *cial instruments linked to the catastrophe risks in-*
6 *sured or reinsured through members of the Consor-*
7 *tium in the capital markets;*

8 *(3) coordinate reinsurance contracts between*
9 *participating, qualified reinsurance funds and pri-*
10 *vate parties;*

11 *(4) act as a centralized repository of State risk*
12 *information that can be accessed by private-market*
13 *participants seeking to participate in the transactions*
14 *described in paragraphs (2) and (3) of this section;*

15 *(5) use a catastrophe risk database to perform*
16 *research and analysis that encourages standardiza-*
17 *tion of the risk-linked securities market;*

18 *(6) perform any other functions, other than as-*
19 *suming risk or incurring debt, that are deemed nec-*
20 *essary to aid in the transfer of catastrophe risk from*
21 *participating States to private parties; and*

22 *(7) submit annual reports to Congress describing*
23 *the activities of the Consortium for the preceding*
24 *year.*

1 **SEC. 103. POWERS.**

2 *The Consortium—*

3 *(1) may make and perform such contracts and*
4 *other agreements with any individual or other private*
5 *or public entity however designated and wherever sit-*
6 *uated, as may be necessary for carrying out the func-*
7 *tions of the Consortium; and*

8 *(2) shall have such other powers, other than the*
9 *power to assume risk or incur debt, as may be nec-*
10 *essary and incident to carrying out this Act.*

11 **SEC. 104. NONPROFIT ENTITY; CONFLICTS OF INTEREST;**
12 **AUDITS.**

13 *(a) NONPROFIT ENTITY.—The Consortium shall be a*
14 *nonprofit entity and no part of the net earnings of the Con-*
15 *sortium shall inure to the benefit of any member, founder,*
16 *contributor, or individual.*

17 *(b) CONFLICTS OF INTEREST.—No director, officer, or*
18 *employee of the Consortium shall in any manner, directly*
19 *or indirectly, participate in the deliberation upon or the*
20 *determination of any question affecting his or her personal*
21 *interests or the interests of any Consortium, partnership,*
22 *or organization in which he or she is directly or indirectly*
23 *interested.*

24 *(c) AUDITS.—*

25 *(1) ANNUAL AUDIT.—The financial statements of*
26 *the Consortium shall be audited annually in accord-*

1 *ance with generally accepted auditing standards by*
2 *independent certified public accountants.*

3 (2) *REPORTS.*—*The report of each annual audit*
4 *pursuant to paragraph (1) shall be included in the*
5 *annual report submitted in accordance with section*
6 *102(7).*

7 **SEC. 105. MANAGEMENT.**

8 (a) *BOARD OF DIRECTORS; MEMBERSHIP; DESIGNA-*
9 *TION OF CHAIRPERSON.*—

10 (1) *BOARD OF DIRECTORS.*—*The management of*
11 *the Consortium shall be vested in a board of directors*
12 *(referred to in this title as the “Board”) composed of*
13 *not less than 3 members.*

14 (2) *CHAIRPERSON.*—*The Secretary of Treasury,*
15 *or the designee of the Secretary, shall serve as the*
16 *chairperson of the Board.*

17 (3) *MEMBERSHIP.*—*The members of the Board*
18 *shall include—*

19 (A) *the Secretary of Homeland Security*
20 *and the Secretary of Commerce, or the designees*
21 *of such Secretaries, respectively, but only during*
22 *such times as there are fewer than two States*
23 *participating in the Consortium; and*

1 (B) a member from each State partici-
2 pating in the Consortium, who shall be ap-
3 pointed by such State.

4 (b) *BYLAWS.*—The Board may prescribe, amend, and
5 repeal such bylaws as may be necessary for carrying out
6 the functions of the Consortium.

7 (c) *COMPENSATION, ACTUAL, NECESSARY, AND TRANS-*
8 *PORTATION EXPENSES.*—

9 (1) *NON-FEDERAL EMPLOYEES.*—A member of
10 the Board who is not otherwise employed by the Fed-
11 eral Government shall be entitled to receive the daily
12 equivalent of the annual rate of basic pay payable for
13 level IV of the Executive Schedule under section 5315
14 of title 5, United States Code, as in effect from time
15 to time, for each day (including travel time) during
16 which such member is engaged in the actual perform-
17 ance of duties of the Consortium.

18 (2) *FEDERAL EMPLOYEES.*—A member of the
19 Board who is an officer or employee of the Federal
20 Government shall serve without additional pay (or
21 benefits in the nature of compensation) for service as
22 a member of the Consortium.

23 (3) *TRAVEL EXPENSES.*—Members of the Consor-
24 tium shall be entitled to receive travel expenses, in-
25 cluding per diem in lieu of subsistence, equivalent to

1 *those set forth in subchapter I of chapter 57 of title*
2 *5, United States Code.*

3 (d) *QUORUM.*—*A majority of the Board shall con-*
4 *stitute a quorum.*

5 (e) *EXECUTIVE DIRECTOR.*—*The Board shall appoint*
6 *an executive director of the Consortium on such terms as*
7 *the Board may determine.*

8 **SEC. 106. STAFF; EXPERTS AND CONSULTANTS.**

9 (a) *STAFF.*—

10 (1) *APPOINTMENT.*—*The Board of the Consor-*
11 *tium may appoint and terminate such other staff as*
12 *are necessary to enable the Consortium to perform its*
13 *duties.*

14 (2) *COMPENSATION.*—*The Board of the Consor-*
15 *tium may fix the compensation of the executive direc-*
16 *tor and other staff.*

17 (b) *EXPERTS AND CONSULTANTS.*—*The Board shall*
18 *procure the services of experts and consultants as the Board*
19 *considers appropriate.*

20 **SEC. 107. FEDERAL LIABILITY.**

21 *The Federal Government and the Consortium shall not*
22 *bear any liabilities arising from the actions of the Consor-*
23 *tium. Participating States shall retain all catastrophe risk*
24 *until the completion of a transaction described in para-*
25 *graphs (2) and (3) of section 102.*

1 **SEC. 108. AUTHORIZATION OF APPROPRIATIONS.**

2 *There are authorized to be appropriated to carry out*
3 *this title \$20,000,000 for each of fiscal years 2008 through*
4 *2013.*

5 **TITLE II—NATIONAL HOME-**
6 **OWNERS' INSURANCE STA-**
7 **BILIZATION PROGRAM**

8 **SEC. 201. ESTABLISHMENT.**

9 *The Secretary of the Treasury shall carry out a pro-*
10 *gram under this title to make liquidity loans and cata-*
11 *strophic loans under section 202 to qualified reinsurance*
12 *programs to ensure the solvency of such programs, to im-*
13 *prove the availability and affordability of homeowners' in-*
14 *surance, to incent risk transfer to the private capital and*
15 *reinsurance markets, and to spread the risk of catastrophic*
16 *financial loss resulting from natural disasters and cata-*
17 *strophic events.*

18 **SEC. 202. LIQUIDITY LOANS AND CATASTROPHIC LOANS**
19 **FOR STATE AND REGIONAL REINSURANCE**
20 **PROGRAMS.**

21 *(a) CONTRACTS.—The Secretary may enter into a con-*
22 *tract with a qualified reinsurance program to carry out the*
23 *purposes of this Act as the Secretary may deem appro-*
24 *priate. The contract shall include, at a minimum, the con-*
25 *ditions for loan eligibility set forth in this section.*

1 **(b) CONDITIONS FOR LOAN ELIGIBILITY.**—A loan
2 *under this section may be made only to a qualified reinsur-*
3 *ance program and only if—*

4 (1) *before the loan is made—*

5 (A) *the State or regional reinsurance pro-*
6 *gram submits to the Secretary a report setting*
7 *forth, in such form and including such informa-*
8 *tion as the Secretary shall require, how the pro-*
9 *gram plans to repay the loan; and*

10 (B) *based upon the report of the program,*
11 *the Secretary determines that the program can*
12 *meet its repayment obligation under the loan*
13 *and certifies that the program can meet such ob-*
14 *ligation;*

15 (2) *the program cannot access capital in the pri-*
16 *ivate market, including through catastrophe bonds and*
17 *other securities sold through the facility created in*
18 *title I of this Act, as determined by the Secretary,*
19 *and a loan may be made to such a qualified reinsur-*
20 *ance program only to the extent that such program*
21 *cannot access capital in the private market;*

22 (3) *the Secretary determines that an event has*
23 *resulted in insured losses in a State with a qualified*
24 *reinsurance program;*

1 (4) *the loan complies with the requirements*
2 *under subsection (d) and or (e), as applicable; and*

3 (5) *the loan is afforded the full faith and credit*
4 *of the State and the State demonstrates to the Sec-*
5 *retary that it has the ability to repay the loans.*

6 (c) *MANDATORY ASSISTANCE FOR QUALIFIED REIN-*
7 *SURANCE PROGRAMS.—The Secretary shall upon the re-*
8 *quest of a qualified reinsurance program and subject to sub-*
9 *section (b), make a loan under subsection (d) or (e) for such*
10 *program in the amount requested by such program (subject*
11 *to the limitations under subsections (d)(2) and (e)(2), re-*
12 *spectively).*

13 (d) *LIQUIDITY LOANS.—A loan under this subsection*
14 *for a qualified reinsurance program shall be subject to the*
15 *following requirements:*

16 (1) *PRECONDITIONS.—The Secretary shall have*
17 *determined that the qualified reinsurance program—*

18 (A) *has a capital liquidity shortage, in ac-*
19 *cordance with regulations that the Secretary*
20 *shall establish; and*

21 (B) *cannot access capital markets at effec-*
22 *tive rates of interest lower than those provided in*
23 *paragraph (3).*

1 (2) *AMOUNT.*—*The principal amount of the loan*
2 *may not exceed the ceiling coverage level for the quali-*
3 *fied reinsurance program.*

4 (3) *RATE OF INTEREST.*—*The loan shall bear in-*
5 *terest at an annual rate 3 percentage points higher*
6 *than marketable obligations of the Treasury having*
7 *the same term to maturity as the loan and issued*
8 *during the most recently completed month, as deter-*
9 *mined by the Secretary, or such higher rate as may*
10 *be necessary to ensure that the amounts of interest*
11 *paid under such loans exceed the sum of the costs (as*
12 *such term is defined in section 502 of the Federal*
13 *Credit Reform Act of 1990 (2 U.S.C. 661a)) of such*
14 *loans, the administrative costs involved in carrying*
15 *out a program under this title for such loans, and*
16 *any incidental effects on governmental receipts and*
17 *outlays.*

18 (4) *TERM.*—*The loan shall have a term to matu-*
19 *rity of not less than 5 years and not more than 10*
20 *years.*

21 (e) *CATASTROPHIC LOANS.*—*A loan under this sub-*
22 *section for a qualified reinsurance program shall be subject*
23 *to the following requirements:*

24 (1) *PRECONDITIONS.*—*The Secretary shall have*
25 *determined that an event has resulted in insured*

1 *losses in a State with a qualified reinsurance pro-*
2 *gram and that such insured losses in such State are*
3 *in excess of 150 percent of the aggregate amount of*
4 *direct written premium for privately issued property*
5 *and casualty insurance, for risks located in that*
6 *State, over the calendar year preceding such event, in*
7 *accordance with regulations that the Secretary shall*
8 *establish.*

9 (2) *AMOUNT.*—*The principal amount of the loan*
10 *made pursuant to an event referred to in paragraph*
11 *(1) may not exceed the amount by which the insured*
12 *losses sustained as a result of such event exceed the*
13 *ceiling coverage level for the qualified reinsurance*
14 *program.*

15 (3) *RATE OF INTEREST.*—*The loan shall bear in-*
16 *terest at an annual rate 0.20 percentage points higher*
17 *than marketable obligations of the Treasury having a*
18 *term to maturity of not less than 10 years and issued*
19 *during the most recently completed month, as deter-*
20 *mined by the Secretary, or such higher rate as may*
21 *be necessary to ensure that the amounts of interest*
22 *paid under such loans exceed the sum of the costs (as*
23 *such term is defined in section 502 of the Federal*
24 *Credit Reform Act of 1990 (2 U.S.C. 661a)) of such*
25 *loans, the administrative costs involved in carrying*

1 *out a program under this title for such loans, and*
2 *any incidental effects on governmental receipts and*
3 *outlays.*

4 (4) *TERM.*—*The loan shall have a term to matu-*
5 *urity of not less than 10 years.*

6 (f) *USE OF FUNDS.*—*Amounts from a loan under this*
7 *section shall only be used to provide reinsurance or*
8 *retrocessional coverage to underlying primary insurers or*
9 *reinsurers for losses arising from all personal real property*
10 *or homeowners' lines of insurance, as defined in the Uni-*
11 *form Property & Casualty Product Coding Matrix pub-*
12 *lished and maintained by the National Association of In-*
13 *surance Commissioners. Such amounts shall not be used for*
14 *any other purpose.*

15 **SEC. 203. REPORTS AND AUDITS.**

16 *The Secretary shall submit a report to the President*
17 *and the Congress annually that identifies and describes any*
18 *loans made under this title during such year and any re-*
19 *payments during such year of loans made under this title,*
20 *and describes actions taken to ensure accountability of loan*
21 *funds. The Secretary shall provide for regular audits to be*
22 *conducted for each loan made under this title and shall*
23 *make the results of such audits publicly available.*

24 **SEC. 204. FUNDING.**

25 (a) *PROGRAM FEE.*—

1 (1) *IN GENERAL.*—*The Secretary may establish*
2 *and collect, from qualified reinsurance programs that*
3 *are precertified pursuant to section 301(c), a reason-*
4 *able fee, as may be necessary to offset the expenses of*
5 *the Secretary in connection with carrying out the re-*
6 *sponsibilities of the Secretary under this title, includ-*
7 *ing—*

8 (A) *costs of developing, implementing, and*
9 *carrying out the program under this title; and*

10 (B) *costs of providing for precertification*
11 *pursuant to section 301(c) of State and regional*
12 *reinsurance programs as qualified reinsurance*
13 *programs.*

14 (2) *ADJUSTMENT.*—*The Secretary may, from*
15 *time to time, adjust the fee under paragraph (1) as*
16 *appropriate based on expenses of the Secretary re-*
17 *ferred to in such paragraph.*

18 (3) *USE.*—*Any fees collected pursuant to this*
19 *subsection shall be credited as offsetting collections of*
20 *the Department of the Treasury and shall be available*
21 *to the Secretary only for expenses referred to in para-*
22 *graph (1).*

23 (b) *COSTS OF LOANS; ADMINISTRATIVE COSTS.*—*To*
24 *the extent that amounts of negative credit subsidy are re-*
25 *ceived by the Secretary in any fiscal year pursuant to loans*

1 *made under this title, such amounts shall be available for*
2 *costs (as such term is defined in section 502 of the Federal*
3 *Credit Reform Act of 1990 (2 U.S.C. 661a)) of such loans*
4 *and for costs of carrying out the program under this title*
5 *for such loans.*

6 (c) *FULL TAXPAYER REPAYMENT.*—*The Secretary*
7 *shall require the full repayment of all loans made under*
8 *this title. If the Secretary determines at any time that such*
9 *full repayment will not made, or is likely not to be made,*
10 *the Secretary shall promptly submit a report to the Con-*
11 *gress explaining why such full repayment will not be made*
12 *or is likely not to be made.*

13 **TITLE III—GENERAL** 14 **PROVISIONS**

15 **SEC. 301. QUALIFIED REINSURANCE PROGRAMS.**

16 (a) *IN GENERAL.*—*For purposes of this Act only, a*
17 *program shall be considered to be a qualified reinsurance*
18 *program if the program—*

19 (1) *is authorized by State law for the purposes*
20 *described in this section;*

21 (2) *is an entity in which the authorizing State*
22 *maintains a material, financial interest;*

23 (3) *provides reinsurance or retrocessional cov-*
24 *erage to underlying primary insurers or reinsurers*
25 *for losses arising from all personal residential lines of*

1 *insurance, as defined in the Uniform Property &*
2 *Casualty Product Coding Matrix published and*
3 *maintained by the National Association of Insurance*
4 *Commissioners;*

5 *(4) has a governing body, a majority of whose*
6 *members are public officials;*

7 *(5) provides reinsurance or retrocessional cov-*
8 *erage to underlying primary insurers or reinsurers*
9 *for losses in excess of such amount that the Secretary*
10 *has determined represents a catastrophic event in that*
11 *particular State;*

12 *(6) is authorized by a State that has in effect*
13 *such laws, regulations, or other requirements, as the*
14 *Secretary shall by regulation provide, that—*

15 *(A) ensure, to the extent that reinsurance*
16 *coverage made available under the qualified rein-*
17 *surance program results in any cost savings in*
18 *providing insurance coverage for risks in such*
19 *State, such cost savings are reflected in premium*
20 *rates charged to consumers for such coverage;*

21 *(B) require that any new construction, sub-*
22 *stantial rehabilitation, and renovation insured*
23 *or reinsured by the program complies with ap-*
24 *plicable State or local government building, fire,*
25 *and safety codes;*

1 (C) require State authorized insurance enti-
2 ties within that State to establish an insurance
3 rate structure that takes into account measures
4 to mitigate insurance losses;

5 (D) require State authorized insurance and
6 reinsurance entities within that State to estab-
7 lish rates at a level that annually produces ex-
8 pected premiums that shall be sufficient to pay
9 the expected annualized cost of all claims, loss
10 adjustment expenses, and all administrative costs
11 of reinsurance coverage offered; and

12 (E) encourage State authorized insurance
13 and reinsurance entities within that State to es-
14 tablish rates that do not involve cross-subsidiza-
15 tion between any separate property and casualty
16 lines covered under the State authorized insur-
17 ance or reinsurance entity; and

18 (7) complies with such additional organiza-
19 tional, underwriting, and financial requirements as
20 the Secretary shall, by regulation, provide to carry
21 out the purposes of this Act.

22 (b) *TRANSITIONAL MECHANISMS.*—For the five-year
23 period beginning on the date of the enactment of this Act,
24 in the case of a State that does not have a qualified reinsur-
25 ance program for the State, a State residual insurance mar-

1 *ket entity for such State shall be considered to be a qualified*
2 *reinsurance program, but only if such State residual insur-*
3 *ance market entity was in existence before such date of en-*
4 *actment.*

5 *(c) PRECERTIFICATION.—The Secretary shall establish*
6 *procedures and standards for State and regional reinsur-*
7 *ance programs and the State residual insurance market en-*
8 *tities described in section (b) to apply to the Secretary at*
9 *any time for certification (and recertification) as qualified*
10 *reinsurance programs.*

11 *(d) REINSURANCE TO COVER EXPOSURE.—This sec-*
12 *tion may not be construed to limit or prevent any insurer*
13 *from obtaining reinsurance coverage for insured losses re-*
14 *tained by insurers pursuant to this section, nor shall the*
15 *obtaining of such coverage affect the calculation of the*
16 *amount of any loan under this title.*

17 **SEC. 302. DEFINITIONS.**

18 *For purposes of this Act, the following definitions shall*
19 *apply:*

20 *(1) CEILING COVERAGE LEVEL.—The term “ceiling*
21 *coverage level” means, with respect to a qualified*
22 *reinsurance program, the maximum liability, under*
23 *law, that could be incurred at any time by the quali-*
24 *fied reinsurance program.*

1 (2) *INSURED LOSS.*—*The term “insured loss”*
2 *means any loss insured by a qualified reinsurance*
3 *program.*

4 (3) *QUALIFIED REINSURANCE PROGRAM.*—*The*
5 *term “qualified reinsurance program” means a State*
6 *or regional program that meets the requirements*
7 *under section 301.*

8 (4) *SECRETARY.*—*The term “Secretary” means*
9 *the Secretary of the Treasury.*

10 (5) *STATE.*—*The term “State” includes the sev-*
11 *eral States, the District of Columbia, the Common-*
12 *wealth of Puerto Rico, Guam, the Commonwealth of*
13 *the Northern Mariana Islands, the United States Vir-*
14 *gin Islands, and American Samoa.*

15 **SEC. 303. REGULATIONS.**

16 *The Secretary shall issue such regulations as may be*
17 *necessary to carry out this Act.*

Union Calendar No. 264

110TH CONGRESS
1ST Session

H. R. 3355

[Report No. 110-419]

A BILL

To ensure the availability and affordability of homeowners' insurance coverage for catastrophic events.

OCTOBER 31, 2007

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed