



Consumer Federation of America

FOR IMMEDIATE RELEASE:
September 29, 2005

CONTACT:
J. Robert Hunter, 207-864-3953

Statement of J. Robert Hunter, Director of Insurance Regarding Legislation to Retroactively Provide Flood Insurance to Properties Damaged By Hurricanes Katrina and Rita

Representative Gene Taylor of Mississippi has recently introduced legislation that would allow homeowners without flood insurance who were affected by Hurricanes Katrina and Rita to purchase it after-the-fact through the federally-supported National Flood Insurance Program. This legislation is certainly well-intended but it is not the right way to help those who did not have flood insurance before the hurricanes hit. It will undermine the flood insurance program, harm taxpayers, bail out mortgage lenders who should have required homeowners to purchase flood insurance, and encourage insurers not to pay for damages that they should cover.

By definition, insurance purchased after an insured event occurs is not insurance. Selling insurance after-the-fact will make flood insurance virtually impossible to sell in the future, as homeowners would anticipate that Congress would treat them in the same way as victims of Hurricanes Katrina and Rita were treated. Indeed, people with uninsured flood damage from previous floods, such as last year's four hurricanes in Florida, would likely seek to have the same opportunity to purchase coverage retroactively.

The first step that Congress should take to help homeowners devastated by these hurricanes is to make sure that insurance companies pay their fair share under the policies that consumers purchased. That is the goal of the Attorney General of Mississippi in his lawsuit against a number of insurance companies. These policies generally covered wind and rain damage. However, if Congress allows homeowners to retroactively purchase flood coverage, insurers will be tempted to deny even more legitimate claims by contending that they are flood-related and payable by taxpayers.

Congress should also ensure that mortgage lenders do not escape their financial responsibilities. Many lenders now hold damaged collateral (homes affected by the hurricanes) that is at least in part not covered by insurance. These lenders chose to lend money to homeowners in hurricane and flood prone areas without requiring the purchase of flood insurance. By promoting the retroactive purchase of flood insurance, mortgage lenders are now trying to shift the financial losses resulting from bad business decisions to taxpayers.

The Consumer Federation of America shares Congressman Taylor's desire to assist homeowners devastated by these hurricanes and is working hard to do so. However, this can be done without allowing insurers and lenders to shift the costs that they are responsible for onto the backs of taxpayers. In the long run this misguided legislation will do more harm than good to consumers and taxpayers.