

113TH CONGRESS
1ST SESSION

H. R. 1101

To strengthen America's financial infrastructure, by requiring pre-funding for catastrophe losses using private insurance premium dollars to better prepare and protect homeowners from natural catastrophes and to protect taxpayers from massive bailouts, and to provide dedicated funding from insurance premiums to improve catastrophe preparedness, loss prevention and mitigation, and to improve the availability and affordability of private market homeowners insurance coverage for catastrophic events, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 12, 2013

Mr. Sires introduced the following bill; which was referred to the Committee on Financial Services, and in addition to the Committee on Transportation and Infrastructure, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To strengthen America's financial infrastructure, by requiring pre-funding for catastrophe losses using private insurance premium dollars to better prepare and protect homeowners from natural catastrophes and to protect taxpayers from massive bailouts, and to provide dedicated funding from insurance premiums to improve catastrophe preparedness, loss prevention and mitigation, and to improve the availability and affordability of private market homeowners insurance coverage for catastrophic events, and for other purposes.

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 AND TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Homeowners and Taxpayers Protection Act of 2013”.

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

Sec. 1. Short title and table of contents.

Sec. 2. Findings and purpose.

Sec. 3. Definitions.

**TITLE I—TAXPAYER PROTECTION, PRE-FUNDED CATASTROPHE
RECOVERY, AND MARKET STABILIZATION**

Sec. 101. National Commission on Natural Catastrophe Preparation and Protection.

Sec. 102. Pre-funded and privately financed catastrophe recovery program.

Sec. 103. Post-catastrophe market stabilization program for liquidity loans.

Sec. 104. Termination.

**TITLE II—CATASTROPHE READINESS, CITIZEN AND COMMUNITY
PREPAREDNESS, AND MITIGATION**

Sec. 201. National Readiness, Preparedness, and Mitigation Committee.

8 **SEC. 2. FINDINGS AND PURPOSE.**

9 (a) FINDINGS.—The Congress finds the following:

10 (1) The economy of the United States, the
11 American taxpayers, and all homeowners need to be
12 better prepared for, and more protected from, major
13 natural catastrophes.

14 (2) Taking into consideration the current eco-
15 nomic and fiscal challenges facing the United States,
16 it is more important than ever to fortify our Na-
17 tion’s financial infrastructure to be fully prepared

1 for major natural catastrophes and to mitigate the
2 risk of catastrophe as much as possible.

3 (3) When major catastrophes hit, the Federal
4 Government is called upon to provide significant
5 funding and services to support recovery.

6 (4) The costs of post-catastrophe Federal “bail-
7 outs” are borne by all taxpayers and can create a
8 disincentive to fully prepare for catastrophes.

9 (5) Historically, the budget for Federal Govern-
10 ment has assumed there will be no natural catas-
11 tropes, and this lack of pre-funding for catas-
12 tropes contributed substantially to annual budget
13 deficits and growing national debt.

14 (6) The Budget Control Act of 2011 ends an
15 era of unbudgeted recovery assistance and author-
16 izes a fixed level of annual funding for catastrophes
17 relief.

18 (7) The amount of future catastrophe relief
19 funding is capped at the average amount spent on
20 natural catastrophes during the previous 10 years
21 with the high and low years removed.

22 (8) By removing the high and low years, the
23 law now caps catastrophes spending at a level that
24 is less than 60 percent of the amount spent on ca-
25 tastrope relief during the previous 10 years.

5 (10) Natural catastrophes will continue to
6 occur, and the exposure to catastrophe risk is grow-
7 ing. Scientists warn that future catastrophes will in-
8 evitably cause losses far in excess of prior events,
9 and these losses could exceed the limited capacity in
10 the private market to cover claims and remain viable
11 to insure properties after massive catastrophic
12 events.

21 (12) In 2012, the devastation caused by
22 Superstorm Sandy demonstrated yet again the need
23 for a mechanism to ensure that privately funded
24 monies will be available if needed following mega-ca-
25 tastrophes.

16 (15) Disruptions in insurance availability and
17 affordability will continue to harm economic activity
18 in States exposed to major catastrophes and place
19 significant burdens on residents of these States.

20 (16) Consumers in many areas around the
21 country cannot find homeowners insurance in the
22 private market, and affordability and availability
23 challenges will grow dramatically when future major
24 catastrophes strike.

1 (17) Hurricane Katrina, Superstorm Sandy,
2 and other recent catastrophes confirm that the eco-
3 nomic harm from natural catastrophes has a dis-
4 proportionate impact upon the poor and middle class
5 because areas most frequently and adversely im-
6 pacted by catastrophic hurricanes have dispropor-
7 tionately high rates of poverty and housing stock
8 valued well below State averages.

9 (18) A new public-private partnership approach
10 to deal more effectively with major natural catas-
11 trophes would more efficiently leverage the public
12 sector and establish a limited, less expensive, more
13 focused role for government while also maximizing
14 the capabilities of the private sector.

15 (19) A privately funded backstop can provide
16 more protection at lower cost for consumers while
17 also strengthening America's financial infrastructure
18 to deal with natural catastrophes by increasing ca-
19 pacity and providing more market stability after a
20 catastrophe.

(20) Cost savings can lower premiums for consumers and be used to encourage better prevention and mitigation in lieu of post-event bailouts.

24 (21) A financial backstop can be structured to
25 be fully funded to protect taxpayers from bailouts

1 and insurance policyholders from subsidies upon
2 which the current system relies.

3 (22) A public-private partnership model, with
4 an appropriately structured backstop, can protect
5 against the timing risk presented by major natural
6 catastrophes, spread risk more broadly, and enable
7 private direct insurers to underwrite and price insur-
8 ance for large-scale catastrophes more efficiently and
9 with less risk of insolvency or financial distress while
10 making insurance more available and affordable for
11 consumers.

12 (23) A public-private partnership model can be
13 structured to include and encourage participation by
14 private market reinsurers.

15 (24) Incentives and requirements can be cre-
16 ated to improve prevention and mitigation measures
17 at the State and local levels, including strong build-
18 ing codes, effective retrofits for existing homes, and
19 sensible land use policies to prohibit further develop-
20 ment in environmentally sensitive areas that are
21 highly exposed to catastrophe.

22 (25) For the majority of Americans, their home
23 is their single biggest asset and protecting that in-
24 vestment is important to the economic health of mil-

1 lions of Americans, to social stability; and to the
2 health of the banking system and broader economy.

3 (26) The financial crisis of 2008 and recent fis-
4 cal challenges confirm the value of taking action in
5 advance to strengthen America's financial infra-
6 structure through a privately funded backstop rather
7 than waiting for a future crisis or collapse to take
8 emergency action in the form of bailouts.

9 (27) It is in the best interests of the Nation to
10 take responsible action now to begin to build a fi-
11 nancial backstop that will help protect a recovering
12 American economy and mitigate the economic or fi-
13 nancial shock that could result from a major cata-
14 strophic event.

15 (b) PURPOSES.—The purposes of this Act are—

16 (1) to better prepare and protect homeowners
17 and taxpayers from major natural catastrophe;

18 (2) to establish a fully funded program for ca-
19 tastrophe losses to strengthen the financial infra-
20 structure of the United States;

21 (3) to protect taxpayers from bailouts and sub-
22 sidies related to the financing of post-catastrophe ca-
23 tastrophe relief;

24 (4) to develop a public-private partnership that
25 maximizes and supplements private market capacity,

1 increases the spread of risk, and increases market
2 stability;

3 (5) to reduce the size of State government in-
4 surance exposure;

5 (6) to make private market homeowners insur-
6 ance more available and affordable;

7 (7) to improve emergency preparedness;

8 (8) to encourage individuals and communities to
9 adopt mitigation and prevention measures that re-
10 duce losses from such catastrophes; and

11 (9) to fortify the Nation's capacity to assist in
12 the financial recovery from major catastrophes.

13 **SEC. 3. DEFINITIONS.**

14 For purposes of this Act, the following definitions
15 shall apply:

16 (1) ACTUARILY SOUND.—The term “actuaril-
17 ally sound” means, with respect to premiums, that
18 premiums are determined according to principles of
19 actuarial science to be adequate, but not excessive,
20 in the aggregate to pay current and future obliga-
21 tions, including the expected annualized cost of all
22 claims, loss adjustment expenses, and all administra-
23 tive costs.

24 (2) COVERED EVENT.—The term “covered
25 event” means the occurrence of one or more of the

1 events specified in section 102(c) that causes a loss
2 or series of losses.

3 (3) COVERED STATE.—The term “covered
4 States” means, with respect to a State plan, a State
5 covered by the plan.

6 (4) ELIGIBLE STATE PLAN.—The term “eligible
7 State plan” means a State plan or multi-State plan
8 that meets the requirements of section 102(d).

9 (5) EMERGENCY RESPONSE PROVIDERS.—The
10 term “emergency response providers” has the mean-
11 ing given such term in section 2 of the Homeland
12 Security Act of 2002 (6 U.S.C. 101).

13 (6) FUND.—The term “Fund” means the Ca-
14 tastrophe Preparedness Fund established under sec-
15 tion 102(g).

16 (7) INSURED LOSS.—The term “insured loss”
17 means any loss and associated loss adjustment ex-
18 pense insured or reinsured by an eligible State plan.

19 (8) LIQUIDITY LOAN.—The term “liquidity
20 loan” means a loan to an eligible State plan made
21 under section 103.

22 (9) MULTI-STATE PLAN.—The term “multi-
23 State plan” means a State plan described in para-
24 graph (13)(A)(ii) of this section.

(11) SECRETARY.—The term “Secretary” means the Secretary of the Treasury except as specifically provided otherwise.

16 (13) STATE PLAN.—The term "State plan"
17 means a plan that—

18 (A) is created or administered by—

19 (i) a single State; or

20 (ii) two or more States; and

21 (B) provides insurance or reinsurance protection to address natural catastrophe preparedness and protection, and in the case of a plan
22 described in subparagraph (A)(ii), provides such
23
24

1 protection as part of a program covering mul-
2 tiple States.

3 **TITLE I—TAXPAYER PROTEC-**
4 **TION, PRE-FUNDED CATA-**
5 **TROPHE RECOVERY, AND**
6 **MARKET STABILIZATION**

7 **SEC. 101. NATIONAL COMMISSION ON NATURAL CATA-**
8 **TROPHE PREPARATION AND PROTECTION.**

9 (a) ESTABLISHMENT.—To effectuate a stronger pub-
10 lic-private partnership at the local, State, and national lev-
11 els regarding natural catastrophe preparation and protec-
12 tion, the Secretary of the Treasury, in consultation with
13 the Secretary of Homeland Security, shall establish a com-
14 mission to be known as the National Commission on Nat-
15 ural Catastrophe Preparation and Protection (in this title
16 referred to as the “Commission”).

17 (b) DUTIES.—The Commission shall meet for the
18 purpose of advising the Secretary regarding the estimated
19 loss costs associated with the contracts for reinsurance
20 protection made available under this title and carrying out
21 the functions specified in this Act, including—

22 (1) the development and implementation of
23 public education concerning the risks posed by nat-
24 ural catastrophes;

6 (3) the establishment of a process for members
7 of the Commission to deploy following every major
8 catastrophe to inspect and evaluate the handling of
9 such catastrophes;

1 (c) MEMBERS.—The Commission shall consist of 14
2 members, as follows:

3 (1) HOMELAND SECURITY MEMBER.—The Sec-
4 retary of Homeland Security or the Secretary's des-
5 ignee.

6 (2) APPOINTED MEMBERS.—13 members ap-
7 pointed by the Secretary of the Treasury, who shall
8 consist of—

9 (A) the Director of the Federal Insurance
10 Office of the Department of the Treasury, or
11 the Director's designee;

12 (B) a member of a State legislature who
13 can provide the perspective of State govern-
14 ment;

15 (C) one individual who is an actuary;

16 (D) one individual who is employed in en-
17 gineering;

18 (E) one individual representing the sci-
19 entific community;

20 (F) one individual representing property
21 and casualty insurers;

22 (G) one individual representing reinsurers;

23 (H) one individual who is a member or
24 former member of the National Association of
25 Insurance Commissioners;

1 (I) two individuals who are consumers, in-
2 cluding one consumer who is a homeowner who
3 resides in an area with relatively high exposure
4 to natural catastrophe risk and one consumer
5 who resides in an area with relatively low expo-
6 sure to natural catastrophe risk;

7 (J) one individual who is an emergency re-
8 sponse expert;

9 (K) one individual with expertise regarding
10 capital markets; and

(L) one individual representing the residential construction community.

13 (d) TREATMENT OF NON-FEDERAL MEMBERS.—

14 Each member of the Commission who is not otherwise em-
15 ployed by the Federal Government shall be considered a
16 special Government employee for purposes of sections 202
17 and 208 of title 18, United States Code.

18 (e) EXPERTS AND CONSULTANTS.—The Commission

19 may procure temporary and intermittent services from in-
20 dividuals or groups recognized as experts in the fields of
21 actuarial science, meteorology, seismology, vulcanology,
22 geology, structural engineering, wind engineering, seismic
23 engineering and hydrology, emergency response, and other
24 fields, under section 3109(b) of title 5, United States
25 Code, but at rates not in excess of the daily equivalent

1 of the annual rate of basic pay payable for level V of the
2 Executive Schedule, for each day during which the indi-
3 vidual procured is performing such services for the Com-
4 mission. The Commission may also procure, and the Con-
5 gress encourages the Commission to procure, experts from
6 universities, research centers, foundations, and other ap-
7 propriate organizations that could study, research, and de-
8 velop methods and mechanisms that could be utilized to
9 strengthen structures to better withstand the events cov-
10 ered by this Act.

11 (f) COMPENSATION.—Each member of the Commis-
12 sion who is not an officer or employee of the Federal Gov-
13 ernment shall be compensated at a rate of basic pay pay-
14 able for level V of the Executive Schedule, for each day
15 (including travel time) during which such member is en-
16 gaged in the performance of the duties of the Commission.
17 All members of the Commission who are officers or em-
18 ployees of the United States shall serve without compensa-
19 tion in addition to that received for their services as offi-
20 cers or employees of the United States.

21 (g) OBTAINING DATA.—

22 (1) AUTHORITY.—The Commission and the
23 Secretary may solicit loss and exposure data and
24 such other information that they deem necessary to
25 carry out their responsibilities under this Act from

1 eligible State plans, other governmental agencies,
2 and bodies and organizations that act as statistical
3 agents for the insurance industry. The Commission
4 and the Secretary shall take such actions as are nec-
5 essary to ensure that confidential or proprietary in-
6 formation is disclosed only to authorized individuals
7 working for the Commission or the Secretary.

8 (2) CONFIDENTIALITY.—

9 (A) IN GENERAL.—Information obtained
10 by the Commission and the Secretary pursuant
11 to this Act with reference to which a request for
12 confidential treatment is made by the person
13 furnishing such information—

14 (i) shall be exempt from disclosure
15 under section 552 of title 5, United States
16 Code; and

17 (ii) shall not be published or disclosed.

18 (B) EXCEPTION.—Subparagraph (A) shall
19 not apply with respect to the publication or dis-
20 closure of any data aggregated in a manner
21 that ensures protection of the identity of the
22 person furnishing such data.

23 (h) AUTHORIZATION OF APPROPRIATIONS.—There is
24 authorized to be appropriated—

13 (i) TERMINATION.—The Commission shall terminate
14 upon the date specified in section 104(c).

15 SEC. 102. PRE-FUNDED AND PRIVATELY FINANCED CATAS-

TROPHE RECOVERY PROGRAM.

17 (a) PROGRAM AUTHORITY—

1 recovery by making available for purchase, only by
2 eligible State plans, contracts for reinsurance cov-
3 erage under this section.

4 (2) PURPOSE.—The program shall make avail-
5 able privately funded reinsurance coverage under
6 this section—

7 (A) to diversify and spread risk more effi-
8 ciently and leverage the economies of pooling
9 reinsurance arrangements from different geo-
10 graphical areas of the country covering the
11 events specified in subsection (c);

12 (B) to generate additional capacity and
13 provide stability to the homeowners insurance
14 market by encouraging States to develop or ex-
15 pand plans that address current market chal-
16 lenges and assist homeowners in securing need-
17 ed protection;

18 (C) to improve the availability and afford-
19 ability of homeowners insurance for the purpose
20 of privately financing post-catastrophe recovery
21 by facilitating the pooling and spreading the
22 risk of catastrophic financial losses from nat-
23 ural catastrophes;

24 (D) to improve the solvency, capacity, and
25 stability of homeowners insurance markets, sup-

1 plement private market reinsurance, and in-
2 crease the spread of risk;

3 (E) to encourage the development and im-
4 plementation of mitigation, prevention, recov-
5 ery, and rebuilding strategies to reduce future
6 catastrophe losses; and

7 (F) to recommend methods to continuously
8 improve the way the United States prepares
9 for, reacts to, and responds to catastrophes, in-
10 cluding improvements to the Catastrophe Pre-
11 paredness Fund established under section
12 102(g).

13 (3) CONTRACT PRINCIPLES.—Under the pro-
14 gram under this section, the Secretary shall offer re-
15 insurance coverage through contracts with eligible
16 State plans, which contracts shall—

17 (A) be priced on an actuarially sound basis
18 as specified in this section; and

19 (B) provide coverage based solely on in-
20 sured losses within the State or States partici-
21 pating in the eligible State plan purchasing the
22 contract.

23 (b) QUALIFIED LINES OF COVERAGE.—Each con-
24 tract for reinsurance coverage made available under this
25 section shall provide coverage for insured property losses

1 covered under primary insurance contracts to home-
2 owners, mobile home owners, renters, and condominium
3 owners for covered events. Nothing in this Act shall be
4 interpreted to expand the terms, conditions, or scope of
5 coverage or events covered under insurance policies issued
6 by insurers or eligible State plans.

7 (c) COVERED EVENTS.—

8 (1) IN GENERAL.—Each contract for reinsurance coverage made available under this section shall
9 cover losses insured or reinsured by the eligible
10 State plan purchasing the contract that are proximate-
11 ly caused by—
12
13 (A) earthquakes;
14 (B) events ensuing from earthquakes, in-
15 cluding fire and tsunami-related flood;
16 (C) catastrophic wildfires unrelated to
17 earthquakes;
18 (D) tropical cyclones having maximum sus-
19 tained winds of at least 74 miles per hour, in-
20 cluding hurricanes and typhoons;
21 (E) tornadoes;
22 (F) volcanic eruptions;
23 (G) catastrophic winter storms; and

(H) any other natural catastrophe insured or reinsured under the eligible State plan pursuing the contract.

7 (d) ELIGIBLE STATE PLANS.—A State plan shall be
8 an eligible State plan for purposes of this section only if
9 the State plan meets all of the following requirements:

15 (A) insurance coverage for insured prop-
16 erty losses covered under primary insurance
17 contracts for residential property located in any
18 covered State; or

19 (B) reinsurance coverage that is designed
20 to improve availability or affordability, or both,
21 in the private insurance markets that offers
22 coverage for insured property losses covered
23 under primary insurance contracts for residen-
24 tial property located in any covered State.

11 (B) REPAYMENT.—If any covered State
12 has at any time appropriated amounts from the
13 fund of the State plan for any purpose other
14 than payments made in connection with the ac-
15 tivities authorized under the State plan, the
16 State shall have repaid such amounts to the
17 State fund, together with interest on such
18 amounts.

19 (C) NONDISCRIMINATION IN COVERAGE.—
20 Insurance or reinsurance coverage, as applica-
21 ble, provided under the eligible State plan shall
22 be made available on a nondiscriminatory basis
23 to all qualifying residents of any covered State.

24 (D) PROHIBITION OF CROSS-SUBSIDIZA-
25 TION.—The State plan may not, except for

1 charges or assessments related to post-event fi-
2 nancing or bonding, involve cross-subsidization
3 between any separate property and casualty
4 lines covered under the plan.

5 (E) REINSURANCE PREMIUMS.—In the
6 case of State plans providing reinsurance cov-
7 erage, the plan or the law in effect in each cov-
8 ered State shall require that to the extent that
9 reinsurance coverage made available under the
10 program under this section results in cost sav-
11 ings in providing insurance coverage for risks in
12 such State, such cost savings be reflected in
13 premium rates charged to consumers for such
14 coverage.

15 (F) TERMINATION.—The State plan shall
16 include provisions that authorize the entity for
17 the covered State or States that is authorized
18 to make such a determination to terminate the
19 State plan or, in the case of a multi-State plan,
20 membership in such Plan, if such entity deter-
21 mines that the State plan is no longer necessary
22 to ensure the availability or affordability of resi-
23 dential property insurance for all residents of
24 any covered State.

(G) ACTUARIAL SOUNDNESS.—The State plan shall have actuarially sound rates.

10 (4) SUPPORT FOR MITIGATION AND PREVEN-
11 TION.—

12 (A) REQUIREMENTS.—Except as provided
13 in subparagraph (B), the Secretary determines
14 that, for any year for which the coverage is in
15 effect, the provision of reinsurance coverage
16 under the program under this section to the
17 State plan supports mitigation and prevention
18 of risk associated with covered events and that
19 the State plan meets all of the following re-
20 quirements:

21 (i) BUILDING CODES.—Each covered
22 State has in effect, or appropriate local
23 governments within each covered State
24 have in effect, and enforce building codes

1 and standards that offer risk responsive
2 resistance to earthquakes or high winds.

3 (ii) MITIGATION.—Each covered State
4 has taken actions to mitigate losses caused
5 by natural catastrophes.

6 (iii) PROHIBITION OF PRICE
7 GOUGING.—Each covered State has in ef-
8 fect laws or regulations sufficient to pro-
9 hibit price gouging, during the term of re-
10 insurance coverage provided under the pro-
11 gram under this section for the State plan
12 in any catastrophe area located within the
13 covered State.

14 (iv) HOMEOWNERS INSURANCE
15 RATES.—For any covered State that has in
16 effect laws that require insurers providing
17 homeowners insurance to file their rates
18 for review or regulatory approval, the cov-
19 ered State has confirmed that homeowners
20 insurance rates associated with catastrophe
21 coverage for covered events are actuarially
22 sound.

23 (v) LAND USE AND ZONING PLANS.—
24 Each covered State, to the extent feasible,
25 shall encourage State and local government

1 units to develop, comprehensive land use
2 and zoning plans that are designed to limit
3 additional natural hazard exposure and
4 promote natural hazard mitigation.

5 (vi) EMERGENCY PREPAREDNESS AC-
6 TIONS.—Each covered State, in consulta-
7 tion and cooperation with localities in the
8 State, the Administrator of the Federal
9 Emergency Management Agency, and
10 other appropriate agencies and organiza-
11 tions, shall have taken actions to continu-
12 ously improve emergency preparedness.

13 (B) TRANSITION PERIOD.—To provide suf-
14 ficient time for adoption of the provisions of
15 this subsection and to support implementation
16 of prevention and mitigation measures set forth
17 in subparagraph (A) of this paragraph, during
18 the 5-year period that begins on the date of the
19 enactment of this Act, a State plan shall not be
20 precluded from qualifying as an eligible State
21 plan because the Secretary is unable to make
22 any of the determinations required under sub-
23 paragraph (A).

1 (e) TERMS OF REINSURANCE CONTRACTS.—Each
2 contract for reinsurance coverage under this section shall
3 be subject to the following terms and conditions:

4 (1) MATURITY.—The contract shall have a min-
5 imum term of 1 year or such longer duration as the
6 Secretary may determine.

7 (2) PAYMENT CONDITION.—The contract shall
8 authorize claims payments only for eligible losses to
9 the eligible State plan purchasing the coverage.

10 (3) RETAINED LOSSES REQUIREMENT.—For
11 each covered event, the contract shall not reimburse
12 any losses until the total incurred covered losses ex-
13 ceeds the applicable attachment point established
14 pursuant to subsection (f)(2).

15 (4) MULTIPLE EVENTS.—The contract shall
16 cover any eligible losses from one or more covered
17 events that may occur during the term of the con-
18 tract and shall provide that if multiple events occur,
19 the retained losses requirement under paragraph (f)
20 shall apply in the aggregate and not separately to
21 each individual event.

22 (5) PRICING.—The price of reinsurance cov-
23 erage under the contract shall be an amount estab-
24 lished by the Secretary as follows:

6 (B) FAIRNESS TO TAXPAYERS.—The price
7 shall be established at an actuarially sound level
8 that protects taxpayers from liability and takes
9 into consideration models that estimate losses
10 from covered events.

11 (C) SELF-SUFFICIENCY.—The rates for re-
12 insurance coverage for an eligible State plan
13 shall be established at an actuarially sound level
14 that produces expected premiums sufficient to
15 pay—

16 (i) the expected annualized cost of all
17 claims;
18 (ii) loss adjustment expenses;
19 (iii) the cost of funding emergency
20 preparedness and mitigation efforts; and
21 (iv) the costs of operating the Com-
22 mission and all administrative costs of re-
23 insurance coverage offered under this sub-
24 section.

1 The expected annualized cost of all claims shall
2 be comparable to amounts being included in the
3 price for similar layers of coverage in the pri-
4 vate sector, taking into account the savings as-
5 sociated with the funding mechanisms and the
6 non-profit and tax-exempt status of the Fund.

7 (D) OFFSET.—The Secretary shall ensure,
8 to the maximum extent practicable, that in each
9 fiscal year an amount equal to any amount ap-
10 propriated pursuant to section 101(h) for such
11 fiscal year is obtained from purchasers of rein-
12 surance coverage under this section by incor-
13 porating the costs described in subparagraph
14 (C)(iv) of this paragraph into the pricing of the
15 contracts for such coverage.

16 (6) TAXPAYER PROTECTION, RAPID CASH
17 BUILD-UP, AND POST-EVENT PRICING ADJUST-
18 MENTS.—

19 (A) FIRST 5 YEARS.—Notwithstanding any
20 other provision of this section, during the first
21 five years of the program under this section,
22 the Secretary shall increase the price that is
23 charged for reinsurance coverage provided
24 under the program under this section by at
25 least five percent, or such higher amount as the

7 (B) POST-EVENT.—Notwithstanding any
8 other provision of this section, after any covered
9 event triggering any payment under a contract
10 for reinsurance coverage that requires the Fund
11 to issue obligations under subsection (g)(4) to
12 make such payment and to provide additional
13 taxpayer protection and ensure that the pro-
14 gram under this section is fully funded on an
15 ongoing basis, the Secretary shall require the
16 inclusion of an additional amount in the price
17 that is charged for reinsurance coverage pro-
18 vided under the program equal to at least five
19 percent of the actuarially sound price calculated
20 under paragraph (5) to ensure that the pro-
21 gram collects all revenue necessary—

22 (i) to provide the reinsurance coverage
23 authorized under this section;

24 (ii) to administer the program under
25 this section, and

6 Any such obligations issued under subsection
7 (g)(4) shall be repaid in full from the sur-
8 charges assessed under this paragraph.

1 on a date 15 days after the date of purchase, but
2 shall not provide coverage for losses for an event
3 that has already occurred. Eligible State plans may
4 arrange for prospective contracts for planning pur-
5 poses and to enhance stability and predictability in
6 managing risk and accounting for costs associated
7 with risk transfer.

8 (9) OTHER TERMS.—The contract shall contain
9 such other terms as the Secretary considers nec-
10 essary to carry out this Act and to ensure the long-
11 term financial integrity of the program under this
12 section. The contract shall also specify how payouts
13 shall be administered if multiple events occur that
14 affect more than one eligible State plan.

15 (10) ENCOURAGEMENT FOR PRIVATE SECTOR
16 TO PARTICIPATE.—

17 (A) ESTABLISHMENT OF COMPETITIVE
18 PROCEDURE.—The Congress encourages private
19 market reinsurers and other private sector enti-
20 ties to participate in the program under this
21 section. Accordingly, the Secretary shall estab-
22 lish, by regulation, a competitive procedure
23 under this paragraph that provides qualified en-
24 tities an opportunity, on a basis consistent with
25 the contract cycle established under this section

1 by the Secretary, to offer to provide, in lieu of
2 reinsurance coverage under this section, rein-
3 surance coverage that is substantially similar to
4 coverage otherwise made available under this
5 section.

6 (B) COMPETITIVE PROCEDURE.—Under
7 the procedure established under this para-
8 graph—

9 (i) the Secretary shall establish cri-
10 teria for private insurers, reinsurers, and
11 capital market companies, and consortia of
12 such entities to be treated as qualified en-
13 tities for purposes of this paragraph, which
14 criteria shall require such an entity to have
15 at all times capital sufficient to satisfy the
16 terms of the reinsurance contracts and
17 shall include such other industry and cred-
18 it rating standards as the Secretary con-
19 siders appropriate;

20 (ii) not less than 30 days before the
21 beginning of each contract cycle during
22 which any reinsurance coverage under this
23 section is to be made available, the Sec-
24 retary may request proposals and shall
25 publish in the Federal Register the rates

1 and terms for contracts for coverage under
2 this section that are to be made available
3 during such contract cycle;

4 (iii) the Secretary shall provide qual-
5 iied entities a period of not less than 10
6 days (which shall terminate not less than
7 20 days before the beginning of the con-
8 tract cycle) to submit to the Secretary a
9 written expression of interest in providing
10 reinsurance coverage in lieu of the cov-
11 erage otherwise to be made available under
12 this section;

13 (iv) the Secretary shall provide any
14 qualified entity submitting an expression of
15 interest during the period referred to in
16 clause (iii) a period of not less than 20
17 days (which shall terminate before the be-
18 ginning of the contract cycle) to submit to
19 the Secretary an offer to provide, in lieu of
20 the reinsurance coverage otherwise to be
21 made available under this section, coverage
22 that is substantially similar to such cov-
23 erage;

24 (v) if the Secretary determines that
25 an offer submitted during the period re-

ferred to in clause (iii) is a bona fide offer to provide reinsurance coverage during the contract cycle at rates and terms that are substantially similar to the rates and terms for reinsurance coverage otherwise to be provided under this section by the Secretary, the Secretary shall accept the offer (if still outstanding) and, notwithstanding any other provision of this Act, provide for such entity to make reinsurance coverage available in accordance with the offer; and

(vi) if the Secretary accepts an offer pursuant to clause (v) to make reinsurance coverage available, notwithstanding any other provision of this Act, the Secretary shall reduce, to an equivalent extent, the amount of reinsurance coverage available under this section during the contract cycle to which the offer relates, unless and until the Secretary determines that the entity is not complying with the terms of the accepted offer.

(11) PARTICIPATION BY MULTI-STATE PLANS.—

24 The Congress hereby explicitly encourages States to
25 create and maintain catastrophe funds for their

1 States or with other States, and nothing in this Act
2 may be interpreted to prohibit or discourage the cre-
3 ation of multi-State plans, or the participation by
4 such plans in the program established pursuant to
5 subsection (a). The Secretary shall, by regulation,
6 provide for the application of the provisions of this
7 Act to multi-State catastrophe insurance and rein-
8 surance plans. The Commission shall develop a proc-
9 ess to evaluate and encourage the creation of re-
10 gional programs and approaches to advance the pur-
11 poses of this Act through the establishment of multi-
12 State plans.

13 (f) TREATMENT OF INSURED LOSSES AND MAXIMUM
14 FEDERAL LIABILITY.—

15 (1) AVAILABLE LEVELS OF RETAINED
16 LOSSES.—In making reinsurance coverage available
17 under this section, the Secretary shall make avail-
18 able for purchase contracts for such coverage that
19 require the sustainment of retained losses from cov-
20 ered events (as required under subsection (e)(3) for
21 payment of eligible losses) in various amounts, as
22 the Secretary, in consultation with the Commission,
23 determines appropriate and subject to the require-
24 ments under paragraph (2).

25 (2) STANDARD ATTACHMENT POINT.—

(B) CONSIDERATIONS.—In setting a standard attachment point, the Secretary and the Commission shall take into consideration—

9 (i) how many and which eligible State
10 plans are seeking contracts for reinsurance
11 coverage under this section;

12 (ii) the capital and surplus positions
13 of the eligible State plans;

14 (iii) the coverage preferences of eligi-
15 ble State plans;

16 (iv) the availability and price of rein-
17 surance in the private market;

18 (v) that pooling reinsurance from dif-
19 ferent geographic locations and covering
20 different events is more efficient than
21 stand-alone programs;

22 (vi) affordability of homeowners insur-
23 ance; and

(vii) other factors deemed appropriate to operating a long-term national reinsurance backstop program.

4 (C) USE.—The standard attachment point
5 established pursuant to this paragraph shall be
6 used in establishing reinsurance contracts for
7 each eligible State plan, unless the Secretary, in
8 consultation with the Commission, determines
9 that market conditions or the financial position
10 of an eligible State plan warrants a lower at-
11 tachment point in a contract for such eligible
12 State plan in a given year.

13 (D) LOWER ATTACHMENT POINTS.—If a
14 reinsurance contract is contemplated for an eli-
15 gible State plan having an attachment point
16 lower than the standard attachment point, the
17 cost of such contract shall include or otherwise
18 take into account the additional costs associated
19 with such additional layer of protection.

24 (4) CEILING COVERAGE LEVEL.—Notwith-
25 standing any other provision of law and subject to

1 any limitations in future appropriations Acts, the
2 aggregate potential liability for payment of claims
3 under all contracts for reinsurance coverage sold
4 under this title to any single eligible State plan dur-
5 ing a 12-month period shall not exceed the dif-
6 ference between—

7 (A) the amount equal to the covered loss
8 projected to be incurred once every 600 years
9 from a single event by the eligible State plan;
10 and

11 (B) the amount equal to the cash available
12 in the eligible State plan to pay covered losses.

13 (g) CATASTROPHE PREPAREDNESS FUND FOR PRE-
14 FUNDING PREPAREDNESS AND RECOVERY.—

15 (1) ESTABLISHMENT.—There is established
16 within the Treasury of the United States a fund to
17 be known as the “Catastrophe Preparedness Fund”.

18 (2) CREDITS.—The Fund shall be credited
19 with—

20 (A) amounts received from the sale of con-
21 tracts for reinsurance coverage under this sec-
22 tion;

23 (B) any amounts borrowed under para-
24 graph (4);

(C) any amounts earned on investments of the Fund pursuant to paragraph (5); and

3 (D) such other amounts as may be cred-
4 ited to the Fund.

12 (B) COMMISSION COSTS.—For the operating costs of the Commission
13

14 (C) ADMINISTRATIVE EXPENSES.—For the
15 administrative expenses incurred by the Sec-
16 retary in carrying out the reinsurance program
17 under this Act

18 (D) COST OF NATIONAL READINESS, PRE-
19 PAREDNESS, AND MITIGATION COMMITTEE.—
20 For the operating costs of the National Readi-
21 ness, Preparedness, and Mitigation Committee
22 established under section 201 and for disburse-
23 ments under section 201(f)(2) for catastrophe
24 readiness, preparedness, prevention, and mitiga-
25 tion.

(E) TERMINATION.—Upon termination under section 104, as provided in such section.

3 (4) LIQUIDITY.—

11 (B) PUBLIC DEBT TRANSACTION.—For the
12 purpose of purchasing any such obligations, the
13 Secretary may use as a public debt transaction
14 the proceeds from the sale of any securities
15 issued under chapter 31 of title 31, United
16 States Code, and the purposes for which securi-
17 ties are issued under such chapter are hereby
18 extended to include any purchase by the Sec-
19 retary of such obligations under this paragraph.

20 (C) CHARACTERISTICS OF OBLIGATIONS.—
21 Obligations issued under this paragraph shall
22 be in such forms and denominations, bear such
23 maturities, bear interest at such rate and be
24 subject to such other terms and conditions as
25 the Secretary shall determine.

1 (D) TREATMENT.—All redemptions, purchases,
2 and sales by the Secretary of obligations
3 under this paragraph shall be treated as public
4 debt transactions of the United States.

5 (E) REPAYMENT.—Any obligations issued
6 under this paragraph shall be repaid, including
7 interest, from the Fund and shall be recouped
8 from surcharges under subsection (e)(6)(B) on
9 premiums for reinsurance coverage provided
10 under this section.

22 SEC. 103. POST-CATASTROPHE MARKET STABILIZATION
23 PROGRAM FOR LIQUIDITY LOANS.

24 (a) PURPOSES.—The purposes of this section are to
25 establish a program—

10 (b) LIQUIDITY LOANS.—The Secretary may make li-
11 quidity loans under this section to State plans for the pur-
12 poses of this section, and shall have the powers and au-
13 thorities necessary to make such loans, subject to the re-
14 quirements of this section.

15 (c) CONDITIONS FOR LOAN ELIGIBILITY.—A loan
16 under this section may be made to a State plan only if—

22 (2) the plan cannot access capital in the private
23 market at a cost lower and for similar duration than
24 that provided under a loan under this section, as de-
25 termined by the Secretary; and

4 The Secretary may not require an eligible State plan to
5 purchase reinsurance coverage made available under the
6 program under section 102 to be eligible for a liquidity
7 loan under this section.

8 (d) STATES WITH ELIGIBLE STATE PLANS.—

20 (A) The Secretary shall administer the
21 pre-certification (and recertification) of State
22 plans as eligible State plans.

23 (B) State plans that are pre-certified as el-
24 igible State plans may enter into contracts de-
25 scribed in paragraph (1).

16 (e) STATES WITHOUT ELIGIBLE STATE PLANS.—

21 (A) the loan is necessary to avoid a capital
22 shortfall; and

23 (B) the provisions providing for repayment
24 of the loan are comparable in providing protec-
25 tion to taxpayers as provisions providing for re-

1 payment of liquidity loans under this section by
2 eligible State plans.

3 (2) INTEREST RATE.—Subject to subsection
4 (h), a liquidity loan made under this section to a
5 State plan that is not an eligible State plan shall
6 bear interest at an annual rate that exceeds the rate
7 required under subsection (d)(3) for a loan made to
8 an eligible State plan. Such rate shall be determined
9 in accordance with a schedule of interest rates,
10 which shall be established by the Secretary and shall
11 provide lower rates for loans to State plans that
12 comply with more of the requirements for eligible
13 State plans under section 102(d) and higher rates
14 for loans to State plans that comply with fewer of
15 such requirements.

16 (f) AMOUNT.—The principal amount of a liquidity
17 loan under this subsection may not exceed the difference
18 between the applicable attachment point as determined by
19 the Secretary in section 102(f)(2) and the amount of
20 funds the eligible State plan had to pay losses at the time
21 of the covered event for which the loan is made.

22 (g) USE.—Amounts from a liquidity loan under this
23 section may be used only to pay losses covered by the State
24 plan to which the loan is made.

1 (h) EXCEPTION TO INTEREST RATE LIMITATION.—

2 In the case of liquidity loan under this section made pur-
3 suant to a large covered event that occurs early in the
4 existence of a State plan, the Secretary may charge an
5 interest rate for the loan that allows the State plan to
6 repay the loan and interest without causing significant in-
7 creases in the cost of insurance for covered events in the
8 covered State or States.

9 (i) PREMIUMS UNDER STATE PLAN.—

10 (1) DETERMINATION OF ACTUARILY SOUND
11 PREMIUMS.—In making a request for a liquidity
12 loan under this section, a State plan shall determine,
13 and the Secretary, in consultation with the Commis-
14 sion, shall approve, a premium amount for the cov-
15 erage layer under the State plan for which the li-
16 quidity loan is sought that is actuarially sound.

17 (2) CHARGEABLE PREMIUMS.—Unless other-
18 wise provided by the Secretary, a State plan shall
19 charge, for the coverage layer under the State plan
20 for which the liquidity loan is made an annual pre-
21 mium, for coverage during the period that begins
22 upon the making of the liquidity loan and ends upon
23 full repayment of the loan, in an amount that is not
24 less than 150 percent of the actuarially sound pre-
25 mium determined pursuant to paragraph (1).

1 (j) REPAYMENT OF LOANS.—

2 (1) IN GENERAL.—Any liquidity loan made
3 under this section to a State plan shall be repaid
4 solely through premiums charged by such plan in ac-
5 cordance with subsection (i)(2), unless alternative
6 arrangements have been made pursuant to para-
7 graph (3). The Secretary, in consultation with the
8 Commission, shall determine the expected duration
9 of each loan and monitor repayment of such loans.10 (2) AMOUNT OF PAYMENT.—To repay a liquid-
11 ity loan under this section, the State plan shall pay
12 to the Fund, from all amounts collected for the cov-
13 erage layer referred to in subsection (i)(2) during
14 the period referred to in such subsection, an amount
15 equal to a minimum of 100 percent of the actuari-
16 ally sound premium determined under subsection
17 (j)(1) for such coverage layer, and shall retain the
18 remainder of such amount collected to build reserves
19 for future events, or such other amount or percent-
20 age of such amounts as the Secretary, in consulta-
21 tion with the Commission and State plans, deter-
22 mines is appropriate.23 (3) OTHER OPTIONS.—A State plan may peti-
24 tion the Secretary for other repayment terms, in-
25 cluding repayment from sources such as dedicated

1 State sales taxes or other means, and the Secretary
2 may, in consultation with the Commission, agree to
3 such other terms.

4 (k) REGULATIONS.—The Secretary shall issue any
5 regulations necessary to carry out the program under this
6 section.

7 **SEC. 104. TERMINATION.**

8 (a) IN GENERAL.—Except as provided in subsection
9 (b), the Secretary may not—

10 (1) provide any new reinsurance coverage under
11 section 102 that covers any period after the expira-
12 tion of the 20-year period beginning on the date of
13 the enactment of this Act; or

14 (2) make any new liquidity loan under section
15 103 having a term to maturity that concludes after
16 the expiration of such 20-year period.

17 (b) EXTENSION.—If upon the expiration of the period
18 under subsection (a) the Secretary, in consultation with
19 the Commission, determines that continuation of the pro-
20 gram for reinsurance coverage under section 102 or for
21 liquidity loans under section 103 is necessary or appro-
22 priate to carry out the purposes this Act because of insuf-
23 ficient growth of capacity in the private homeowners in-
24 surance market, the Secretary shall continue to make such
25 coverage and loans available and subsection (a) shall be

1 applied by substituting “25-year period” for “20-year pe-
2 riod” each place such term appears.

3 (c) REPEAL.—Effective upon the first date that rein-
4 surance coverage under section 102 is no longer available
5 or in force and that liquidity loans under section 103 are
6 no longer available or outstanding, pursuant to subsection
7 (a) or (b), this Act (except for this section) is repealed.

8 (d) DEFICIT REDUCTION.—The Secretary shall pay
9 into the General Fund of the Treasury any amounts re-
10 maining in the Fund upon the repeal of this Act under
11 subsection (c).

12 **TITLE II—CATASTROPHE READI-**
13 **NESS, CITIZEN AND COMMU-**
14 **NITY PREPAREDNESS, AND**
15 **MITIGATION**

16 **SEC. 201. NATIONAL READINESS, PREPAREDNESS, AND**
17 **MITIGATION COMMITTEE.**

18 (a) ESTABLISHMENT.—There is established a Na-
19 tional Readiness, Preparedness and Mitigation Committee
20 (in this section referred to as the “Committee”).

21 (b) MEMBERS.—The Committee shall consist of 9
22 members appointed by the Secretary of Housing and
23 Urban Development or the Secretary’s designee, as fol-
24 lows:

5 (2) Three individuals representing nationally
6 recognized non-profits active in catastrophe pre-
7 paredness and response.

13 (c) TERMS.—

14 (1) IN GENERAL.—Except as provided in para-
15 graphs (2) and (3), each member of the Committee
16 shall be appointed for a term of 3 years.

19 (A) one member appointed under each of
20 paragraphs (1), (2), and (3) of subsection (b)
21 shall be appointed for a term of 1 year;

(B) one member appointed under each of paragraphs (1), (2), and (3) of subsection (b) shall be appointed for a term of 2 years; and

(C) one member appointed under each of paragraphs (1), (2), and (3) of subsection (b) shall be appointed for a term of 3 years.

9 (d) PROHIBITION OF COMPENSATION; REIMBURSE-
10 MENT.—Members of the Committee shall receive no com-
11 pensation by reason of their service on the Committee, but
12 shall be reimbursed as provided by rules and by-laws es-
13 tablished by the National Commission on Natural Cata-
14 trope Preparation and Protection established under sec-
15 tion 101.

16 (e) DUTIES.—The members of the Committee shall
17 administer the program under subsection (f) and conduct
18 oversight of the program and activities under such pro-
19 gram.

20 (f) READINESS, PREPAREDNESS, AND MITIGATION
21 GRANT PROGRAM.—

22 (1) ALLOCATION OF AMOUNT.—Beginning upon
23 the expiration of the 12-month period that begins on
24 the date of the enactment of this Act, the Secretary
25 shall ensure that, to the extent provided in appro-

1 priation Acts, approximately 35 percent of the an-
2 nual net investment income of the Fund under sec.
3 102(g), but not less than \$15,000,000, and not
4 more than 20 percent of the premium charged for
5 reinsurance coverage under section 102 in any given
6 year, shall be used for grants to States, units of
7 local government, nonprofit organizations, and other
8 appropriate public and private entities to develop,
9 enhance, or maintain programs and initiatives to im-
10 prove and maintain catastrophe response, citizen
11 preparedness and protection, and prevention and
12 mitigation of losses from natural catastrophes.

13 (2) PROGRAM ELEMENTS.—The amounts made
14 available under paragraph (1) shall be allocated for
15 each of the following purposes in equal amounts:

16 (A) CATASTROPHE RESPONSE READI-
17 NESS.—For catastrophe response readiness pro-
18 grams, which shall include national initiatives
19 that develop, enhance, or maintain the capacity
20 of a public safety agency or other organization
21 to be better prepared, equipped, and trained to
22 respond to natural catastrophes.

23 (B) CITIZEN AND COMMUNITY PREPARED-
24 NESS.—For citizen and community prepared-
25 ness, which shall include programs and initia-

6 (C) PREVENTION AND MITIGATION.—For
7 prevention and mitigation of loss from natural
8 catastrophes, which shall include methods to re-
9 duce loss of life and property, including appro-
10 priate measures to—

11 (i) encourage awareness of the risk
12 factors and what steps can be taken to
13 eliminate or reduce them;

19 (iii) provide for construction relative
20 to the risk and hazards, including—

21 (I) establishment and adoption of
22 State, or locally mandated building
23 codes, as amended by the governing
24 body;

3 (III) focusing on prevention and
4 mitigation for existing homes, with an
5 emphasis on how structures can be
6 retrofitted cost-effectively to make
7 them compliant with building codes.

8 (g) CONTINUOUS IMPROVEMENT, COORDINATION
9 AND INTEGRATION.—The National Commission on Nat-
10 ural Catastrophe Preparation and Protection established
11 under section 101 shall work with eligible State plans and
12 the Committee to continuously improve, coordinate, and
13 integrate catastrophe readiness, citizen and community
14 preparedness, and loss prevention and mitigation at the
15 local, State, regional, and national levels.

○