



**POSITION STATEMENT:**  
**Earthquake Insurance Affordability Act S 637 and HR 3125**  
**Position Statement #2012-03**  
**June 6, 2012**

*This statement summarizes the position of the Natural Hazard Mitigation Association on the Proposed Earthquake Insurance Affordability Act. It was adopted by the NHMA Board of Directors on June 6, 2012.*

The Natural Hazard Mitigation Association supports Congressional approval of the proposed Earthquake Insurance Affordability Act (EIAA). Modeled after successful lessons from the State of California and the California Earthquake Authority (CEA), the Act will enable the nation to handle major seismic events and achieve quicker recovery after an earthquake disaster.

NHMA finds that EIAA provides an excellent first step in transition from existing complicated, well-intentioned, but fragmentary and confusing post disaster recovery programs, moving instead toward an orderly program of insurance for disaster victims/survivors. Any financial exposure to the federal taxpayer posed by the federal guarantee of post event debt under EIAA would be extremely remote. The significant financial benefit to both the federal taxpayer (savings in federal disaster expenditures) and to the disaster survivors (insurance payments) that will be achieved through EIAA by organizations such as CEA far outweighs this remote risk. Furthermore, EIAA would facilitate a smoother and more efficient disaster recovery.

It is our understanding that any federal guarantee of California Earthquake Authority bonds, for example, would not be triggered until CEA has paid billions in earthquake insurance loss payments from its own capital, following a major earthquake catastrophe in California. We further understand that such a guarantee would only be extended after the CEA exhausted approximately 80% of its qualifying assets in covered earthquake insurance claims settlement for an event equal to or larger than the Northridge Earthquake.

In simple terms, it is our understanding that the totality of the EIAA's federal guarantee in the event of a California earthquake disaster would be about \$1.5 billion.

It is useful to compare that potential federal responsibility to the certainty of substantial federal expenditures *without* EIAA:

- Realistically, and under current federal law and administrative practices, the federal taxpayer, in such a situation, is already paying for IRS casualty losses, which (using the Northridge earthquake as an example) would be the equivalent of a federal payment of about \$2.5 billion.
- In addition federal taxpayers would be responsible for additional billions of dollars in grants from FEMA, loans and grants from the US Department of Agriculture, subsidized loans from the Small Business Administration, and potential payments by the US Department of Housing and Urban Development if special appropriations are added to the Community Development Block Grant program, as is often the case in major disasters.
- Further, the federal government would provide billions of additional dollars in deductions taken on federal taxes for the multiple billions of dollars which would surely be donated in the event of such a catastrophe.

If the EIAA works as designed, it will encourage the purchase of private insurance, thus saving multiple additional billions of dollars in disaster assistance, vastly more than any extremely remote potential federal financial obligation.

In addition, whatever process might be involved in dealing with an insurance company in adjusting claims, it is by far a smoother and simpler solution for disaster victims/survivors than dealing with the well-intentioned, but exceedingly complicated and convoluted federal state local and private recovery programs that otherwise would be triggered following a major earthquake catastrophe.

***For those reasons the Natural Hazard Mitigation Association strongly supports the passage of EIAA and similar legislation, to help promote orderly reconstruction following catastrophic events and to encourage communities to adopt risk mitigation strategies to cope with the consequences of natural hazards.***