Section by Section Summary of H.R. 3355

Title I –The National Catastrophe Risk Consortium

SEC. 101. - ESTABLISHMENT; STATUS; PRINCIPAL OFFICE.

This Title establishes a National Catastrophe Risk Consortium that would consist of States that join on a voluntary basis. The Consortium is not a part of the Federal Government. The Consortium's principal office will be in Washington, D.C.

SEC. 102. - FUNCTIONS.

The Consortium will maintain an inventory of catastrophe risk obligations held by participating States and will issue securities and other financial instruments linked to catastrophe risk in the capital markets. Furthermore, it can coordinate reinsurance contracts with private parties.

The Consortium will also act as a database of State catastrophe risk information, which can be accessed by private participants and performs research and analysis that encourages standardization of the risk-linked securities market.

It will also perform any other functions necessary to aid in catastrophe risk transfer and will submit a yearly report to Congress highlighting and explaining its activities.

SEC. 103. - POWERS.

The Consortium can sue and be sued, complain and defend, in its corporate name, in any court of competent jurisdiction and can adopt the use of a judicially-noticed seal. Furthermore, it has the regulatory and contractual authority necessary for carrying out its functions, can determine and prescribe the manner in which its obligations are incurred and expenses allowed and paid, and can employ and fix the compensation of employees and officers.

Finally, the Consortium is given any other powers that may be necessary for carrying out this Act.

SEC. 104. - NON-PROFIT ENTITY; RESTRICTION ON USE OF MONIES; CONFLICTS OF INTEREST; AUDITS.

The Consortium is a non-profit organization with no capital stock. The revenue, earnings and all other income accrued to the Consortium shall only be used to carry out the provisions of this Act and not to enrich the Consortium personnel. Furthermore, to prevent conflicts of interest, no director, officer, or employee of the Consortium shall participate in the deliberation upon any question affecting his or her personal interests. Finally, to ensure continued integrity, the Consortium's financial statements shall be audited annually by independent certified public accountants.

SEC. 105. - FEDERAL ASSISTANCE.

The Consortium maintains eligibility to receive discretionary grants, contracts, gifts, contributions, or technical assistance. In order to receive such assistance the Consortium must enter into an agreement with a Federal department or agency and agree to use the provided assistance only for activities that are in accordance with the Consortium's main functions.

SEC. 106. - MANAGEMENT.

The Consortium shall be managed by a Board of Directors. This Board will be composed of the Secretaries of Homeland Security and Commerce and a member from each participating State. The Chair of this Board shall be the Secretary of the Treasury or his designee. Furthermore, the Board has the authority to elect an Executive Director.

Non-government employees will be eligible for compensation, but Federal employees will not.

SEC. 107. - STAFF; EXPERTS AND CONSULTANTS.

The Chair may appoint and terminate staff and set their compensation as is deemed appropriate for the purposes of the Consortium, and the Board has the power to contract expert consultants as it deems appropriate.

SEC. 108. - STATE MATCHING FUNDS.

Participating States shall provide an aggregate (not individual) amount of $10 million towards the operation of the Consortium. The contribution of individual participating States shall be established by the Board at a level that represents the comparable amount of risk that they are seeking to cede.

SEC. 109. - FEDERAL LIABILITY.

The Federal Government will bear no liabilities from the actions of the Consortium.

SEC. 110. - AUTHORIZATION OF APPROPRIATIONS.

The Consortium is authorized for five years at $10 million per year.

Title II: National Homeowners Insurance Stabilization Program

SEC.201. – ESTABLISHMENT

The Secretary shall carry out a program to make liquidity loans and catastrophic loans to State and regional reinsurance programs.

SEC. 202. - LIQUIDITY LOANS AND CATASTROPHIC LOANS FOR STATE AND REGIONAL REINSURANCE PROGRAMS.

To the extent that a qualified reinsurance plan cannot access capital at a lower cost in the private market, including but not limited to, catastrophe bonds sold through the Consortium created in Title I of this Act and a covered event has resulted in insured losses in the geographic area covered by the program in excess of 150 percent of the aggregate amount of direct written premium for homeowners insurance, a qualifying State or regional reinsurance program is eligible to receive two types of low interest Federal loans.

The Secretary shall extend liquidity loans to a State or regional reinsurance program after the Secretary determines that the State or regional reinsurance program has a capital liquidity shortage, and that it cannot access capital markets at effective rates of interest lower than those offered by this program. The amount of the loan cannot exceed the ceiling coverage level for the reinsurance program. The liquidity loan has an interest rate set at 3 percentage points higher than marketable obligations of the Treasury and a maturity of between 5 and 10 years.

The Secretary shall extend catastrophic loans directly to a State with a qualified reinsurance program, if the Secretary determines that the qualified reinsurance program has sustained losses as a result of a covered event that exceed the ceiling coverage level of the qualified reinsurance program. The catastrophic loan has an annual interest rate 0.20 percentage points higher than marketable obligations of the Treasury and a term to maturity of not less than 10 years.

The Secretary may extend the term to maturity of a liquidity loan or of a catastrophe loan upon a determination that certain circumstances or conditions, established by the Secretary, exist. Such conditions include the occurrence of multiple natural catastrophes, economic hardship or recession resulting in decreased revenues.

The Secretary may make a catastrophic loan to a State residual insurance market entity provided that a State public official with the legal authority to do so cosigns for the loan along with the officers of the entity. A catastrophe loan to a State without a qualified reinsurance plan shall have a higher rate of interest and shorter term to maturity than a catastrophe loan to a qualified reinsurance plan as determined by the Secretary. The authority of the Secretary to offer a catastrophic loan to States without qualified reinsurance programs shall expire 5 years after the date of enactment.

SEC. 203 - REPORTS.

The Secretary is required to submit an annual report to the President and Congress that identifies and describes loans made under this title.

SEC. 204 - FUNDING.

The Secretary is directed to collect from qualified reinsurance plans a reasonable fee in order to offset the expenses associated with the program. There is authorized to be appropriated to the Secretary of the Treasury, for each of fiscal years 2008 through 2013, $5 million for the administrative costs of carrying out this title.

Title III- General Provisions

SEC. 301 - QUALIFIED REINSURANCE PROGRAMS.

A qualified reinsurance program is an entity authorized by the State that provides reinsurance or retrocessional coverage to underlying primary insurers or reinsurers for losses arising from all personal real property and homeowners' lines of insurance. The procedures and standards for certification as such a program shall be established by the Secretary. However, this section may not be construed to limit or prevent any insurer from obtaining reinsurance coverage for insured losses retained by insurers.

SEC. 302 - DEFINITIONS.

Ceiling Coverage Level is the maximum aggregate amount of coverage allowed, under law, to be provided at any time by the program.

Homeowner's Insurance is as defined in the Uniform Property & Casualty Product Coding Matrix published and maintained by the National Association of Insurance Commissioners.

Insured Loss means any loss insured by a qualified reinsurance program.

Qualified Reinsurance Program is a program that meets the qualifications provided in section 301.

SEC. 303 - REGULATIONS.

The Secretary shall issue such regulations as may be necessary to carry out this title.