Homeowners Defense Act of 2007 (H.R. 3355)

TITLE I – Natural Catastrophe Risk Consortium: Establishes a completely voluntary Federal/State Consortium to encourage and facilitate ceding of natural catastrophe risk from Qualified Reinsurance Programs into the private markets, particularly the catastrophe bond markets.

- Consortium serves as conduit issuer of catastrophe bonds and coordinator of reinsurance agreements on behalf of the participating States' Qualified Reinsurance Programs;
- Consortium does not assume underlying risks, take possession of bond proceeds, nor can it incur debt;
- Consortium intended to leverage economies of scale and the diversification of the type and location of catastrophe risks to achieve reinsurance costs lower than those available to states independently;
- Consortium intended to increase the efficiency of the catastrophe bond market through standardization.

TITLE II – National Homeowners Insurance Stabilization Program: Creates Federal loan program to provide post-event financing to Qualified Reinsurance Programs while those programs accumulate capital sufficient to pay their reasonably anticipated reinsurance losses.

- Provides 5 to 10-year Liquidity Loans (at comparable Treasury rate plus 3%) to Qualified Reinsurance Programs to cover shortfalls between a the program's accumulated capital and that program's total liabilities;
- Secondarily, Title II provides 10-plus year Catastrophic Loans (at comparable Treasury rate plus 0.2%) to cover losses in excess of a Qualified Reinsurance Program's total liabilities;
- Loan terms and "penalty" rates designed so that Federal Government is lender of last resort;
- State residual insurance market entities may only participate in Title II's loan programs during a five-year transitional period.

TITLE III – General Provisions: Sets out specific requirements that State catastrophe reinsurance programs must satisfy before Treasury Secretary can certify program/entity as a Qualified Reinsurance Program. Only Qualified Reinsurance Programs may participate in the Consortium and loan programs created in Titles I and II.

- At present, more than 30 States are potentially eligible to participate in the Consortium and loan programs through a State natural catastrophe program or a State residual insurance market entities (i.e., FAIR Plans/Wind pools);
- To be pre-certified as a Qualified Reinsurance Program, as State program must:
    - Reinsure all personal residential lines of insurance (i.e., homeowners insurance);
    - Reinsure only risks in their state deemed truly catastrophic by the Treasury Secretary.
- Participating States must also:
    - Ensure any cost savings realized through State insurance or reinsurance programs pass through to primary policyholders;
    - Require compliance with applicable building codes;
    - Require State insurance and reinsurance programs to establish rate structures that take into account measures to mitigate losses;
    - Require State insurance and reinsurance programs to establish risk-based rates;
    - Encourage State insurance and reinsurance programs not to cross-subsidize between various insurance lines of coverage.