

Ratepayer and Wind Pool Mitigation Program Recovery Action Plan Amendment 3 - Modification 1

Background and Scope

The Mississippi Development Authority (MDA) submits this Modification 1 to the final Ratepayer and Wind Pool Mitigation Program Recovery Action Plan Amendment 3 that was approved by HUD on August 31, 2006. The MDA has determined that this change represents a substantial amendment to the plan and does require an additional public comment period and formal submission to HUD. The nature and purpose of the Plan remain the same subsequent to the modification. The beneficiaries and program activities remain the same. Additionally, this modification will not negatively impact potential beneficiaries who have already applied for assistance under this program. The scope has changed in that the original funding proved sufficient to allow for a reduction of the increase to residential customers only. This modification provides for a reduction of the increase to commercial customers. This modification provides additional funds to an already approved activity.

Program Purpose

This modification provides an additional \$30 million (payable in year one) to the \$50 million wind pool portion of the action plan. This increase must be used to offset increased costs due to Hurricane Katrina, just as the original \$50 million provided. Like the original \$50 million, the Commissioner of Insurance will validate and verify the rate request of the Mississippi Windstorm Underwriting Association (MWUA) and attest to MDA that the \$30 million grant payment is appropriate and accurately supported. The \$30 million is from monies not already allocated in an approved action plan.

Prior to Hurricane Katrina, the Mississippi Windstorm Underwriting Association (MWUA) wrote approximately 16,000 policies for property on the Mississippi Gulf Coast with a total insured value of approximately \$1.8 billion and \$175 million in reinsurance purchased. Post Katrina, the number of policies has grown to over 30,000 and the total insured value now exceeds \$5 billion. Because of the results of Hurricane Katrina (in excess of \$700 million in losses by MWUA) and the growth of the Wind Pool due to the private market increasingly refusing to cover wind risk on the coast, MWUA raised its reinsurance limits from \$175 million to \$350 million for the 2006 hurricane season.

The initial cost for \$350 million in reinsurance for the 2006 season was \$43 million. The policies contain an additional premium provision for growth during the policy year. The estimated total reinsurance premium for 2006 is over \$63 million due to the growth in the pool. The reinsurance premium in 2005 was approximately \$8.8 million.

Recognizing that substantial rate increases would have a particularly harsh impact on the citizens and the economy of the Mississippi Gulf Coast, a grant of \$30 million for 2006 and \$20 million for 2007 was awarded for use by MWUA to partially offset the Hurricane Katrina driven increases in the cost of reinsurance that would have resulted in significant rate increases for the citizens.

Based on actuarial calculations, MWUA initially requested approval to increase residential policy rates by 397% and commercial policy rates by 268%. Because of the grant, the residential rate increase was limited to 90% by the Commissioner of Insurance. The grant has already directly flowed to the residents by reducing the dollars that they spend on this insurance. However, the commercial rate increase of 268% remained creating a harsh impact on the economy of the Mississippi Gulf Coast.

This modification provides for an increase to the 2006 grant from \$30 million to \$60 million. These additional funds granted to MWUA will allow for a reduction in the increase of commercial rates to 142% and serve as an offset to the deficit in premium income. This grant serves as an interim subsidy while the insurance market recovers and stabilizes from its losses due to Hurricane Katrina and the State Legislature enacts structural reforms which ensure a statewide, stable and actuarially sound insurance market for future years.

The objectives, program eligibility and eligible cost sections of the Action Plan remain the same.

Disbursement of Funds

The Mississippi Commissioner of Insurance will validate and verify the rate request of MWUA and attest to MDA that the grant payment is appropriate and accurately supported.

Solicitation of Public Comment

This proposed modification -- Amendment 3 Modification 1 -- was submitted for public comment. Copies were available through request in writing, or on the internet at <http://www.mississippi.org/>. The modification was available in Vietnamese and Spanish translations at the same website.

Written comments regarding this proposed modification were to be mailed to the MDA, Post Office Box 849, Jackson, MS 39205 or sent via facsimile to (601) 359-9280. Comments may also have been submitted online to wpcomments@mississippi.org. Comments were to be received no later than March 5, 2007.

No comments were received.

Substantial Amendments

The State recognizes that any change, which changes the nature, purpose or scope of the program contained herein, will constitute a substantial amendment requiring public comment and approval by HUD. Additions or deletion of program activities or changes in beneficiaries would also constitute the need for a program amendment requiring public comment and HUD approval.

Waivers

Waivers received from the original amendment for the Ratepayer and Wind Pool Mitigation Program are considered to be effective for this modification.