

Insurance Capital Build-Up Incentive Program

**Administered by the
State Board of Administration of Florida**

**Annual Report to the President of the Senate and the
Speaker of the House of Representatives**

February 1, 2012

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Purpose and Scope

Section 215.5595(9), Florida Statutes requires the State Board of Administration to submit a report to the President of the Senate and the Speaker of the House of Representatives by February 1st of each year as to the results of the Insurance Capital Build-Up Incentive Program and each insurer's compliance with the terms of its Surplus Note.

Introduction & History

The Insurance Capital Build-Up Incentive Program ("Program"), administered by the State Board of Administration ("SBA" or "Board"), was created in s. 215.5595, F.S. (the "Statute") for the purpose of providing an incentive for investors to commit additional capital to Florida's residential insurance market and to write a minimum level of premiums for residential hurricane coverage.

The Legislature appropriated \$250 million for the Program. The Legislature specified that \$2.5 million (or 1 percent of the appropriated amount) was to be set aside to pay the administrative costs and fees incurred during the duration of the Program, leaving \$247.5 million available to loan to insurers pursuant to the Program.

The SBA approved an emergency rule (Rule19ER06-3, F.A.C.) on May 31, 2006, in order to implement the Program. The emergency rule was subsequently incorporated into Rule 19-15.001, F.A.C. The SBA emergency rule established time frames for insurers to submit their application under the Program. The first time frame was June 1 to June 15, 2006. The second time frame was June 16 to July 1, 2006. The final time frame was July 2, 2006 to June 1, 2007. Upon receiving the first set of applications, the SBA, in consultation with the Florida Office of Insurance Regulation ("OIR"), reviewed applications, focusing on the financial condition of the insurer and the insurer's business plan. Applications received during each successive time frame were reviewed only if funds were still available to loan. If more funds were applied for than available, the law allowed for prioritization by the SBA. But as it worked out, prioritization was unnecessary. The funds requested matched the funds available as some insurers adjusted their request in order to help maximize the benefits of the program. The SBA received a total of 20 applications from insurers requesting approximately \$356 million in Surplus Note proceeds. As illustrated in Table 1 below, a total of \$247.5 million was loaned out to 13 insurers. Each insurer submitting an application by July 1, 2006 was required by law to make a contribution of new capital to its surplus at least equal to the amount of the Surplus Note. Those insurers applying after July 1, 2006 were each required by

law to make a contribution of new capital to their surplus that was at least twice the amount of the Surplus Note. New capital contributed by each insurer was verified via bank confirmation before Surplus Note proceeds were distributed. The Surplus Notes issued, combined with the total amount of new capital contributed by the companies (\$296 million), created \$543.5 million in new unencumbered capital, allowing insurers to write additional residential property insurance coverage.

TABLE 1

Companies Receiving a Surplus Note	Date of Surplus Note	Amount of Surplus Note	Amount Contributed by Insurer	Total Amount of New Capital
American Capital Assurance Corporation	11/21/06	\$25,000,000	\$25,000,000	\$50,000,000
American Integrity Insurance Company of Florida	06/27/07	\$7,000,000	\$7,000,000	\$14,000,000
Cypress Property & Casualty Insurance Company	02/02/07	\$20,500,000	\$20,500,000	\$41,000,000
First Home Insurance Company*	06/27/07	\$14,500,000	\$29,000,000	\$43,500,000
Florida Peninsula Insurance Company	01/03/07	\$25,000,000	\$25,000,000	\$50,000,000
Modern USA Insurance Company	06/28/07	\$7,000,000	\$7,000,000	\$14,000,000
Olympus Insurance Company*	06/28/07	\$16,500,000	\$33,500,000	\$50,000,000
Privilege Underwriters Reciprocal Exchange*	06/13/07	\$17,000,000	\$34,000,000	\$51,000,000
Royal Palm Insurance Company **	12/20/06	\$25,000,000	\$25,000,000	\$50,000,000
Southern Fidelity Insurance Company	09/12/06	\$25,000,000	\$25,000,000	\$50,000,000
St. Johns Insurance Company	07/31/06	\$20,000,000	\$20,000,000	\$40,000,000
United Property & Casualty Insurance Company	09/22/06	\$20,000,000	\$20,000,000	\$40,000,000
Universal Property & Casualty Insurance Company	11/09/06	<u>\$25,000,000</u>	<u>\$25,000,000</u>	<u>\$50,000,000</u>
		\$247,500,000	\$296,000,000	\$543,500,000

*Companies applying after July 1, 2006
 **Now known as Tower Hill Signature Insurance Company

Terms of Surplus Notes

(Note: All information is as of January 16, 2012)

According to s. 215.5595(2)(f), F.S., each insurer’s “...surplus note must be repayable to the state with a term of 20 years. The surplus note shall accrue interest on the unpaid principal balance at a rate equivalent to the 10-year U.S. Treasury Bond Rate, require the payment of only interest during the first three years, and include such other terms as approved by the Board. The Board may charge late fees up to five percent for late payments or other late remittances. Payment of principal, interest, or late fees by the insurer on the surplus note must be approved by the Commissioner of Insurance, who shall approve such payment unless the Commissioner determines that such payment will substantially impair the financial condition of the insurer.” Certain changes to surplus notes under the Insurance Capital Build-

Up Incentive Program created by s. 215.5595, F.S., were authorized by CS/CS/CS/SB 408 (Chapter 2011-39, Laws of Florida), which was enacted by the 2011 Florida Legislature and which became law on May 17, 2011. Section 4 of that act, which took effect upon the act becoming a law, created a new subsection 215.5595(12), F.S., which provides that an insurer may request that the Board renegotiate the terms of any Surplus Note issued before January 1, 2011. Under this new statutory provision: *If the insurer agrees to accelerate the payment period of the note by at least 5 years, the board must agree to exempt the insurer from the premium-to-surplus ratios required under paragraph (2)(d). If the insurer agrees to an acceleration of the payment period for less than 5 years, the board may, after consultation with the Office of Insurance Regulation, agree to an appropriate revision of the premium-to-surplus ratios required under paragraph (2)(d) for the remaining term of the note if the revised ratios are not lower than a minimum writing ratio of net premium to surplus of at least 1 to 1 and, alternatively, a minimum writing ratio of gross premium to surplus of at least 3 to 1.* American Capital Assurance Corporation, Cypress Property & Casualty Insurance Company, Florida Peninsula Insurance Company, Privilege Underwriters Reciprocal Exchange, Southern Fidelity Insurance Company and Tower Hill Signature Insurance Company all entered into addendums to the notes reducing the term of the notes by 5 years.

Principal

Principal payments are made in equal quarterly installments, beginning in year three of the loan(s), with due dates coinciding with interest payment dates (i.e. January 1, April 1, July 1, and October 1). Although s. 215.5595(2)(f), F.S requires the payment of only interest during the first three years, principal payments can be made during this time frame at the option of the insurer (provided the payments are approved by the Commissioner of Insurance). All of the insurers with an outstanding Surplus Note with the State have reached the three-year mark and have begun making required principal payments. In 2009, First Home Insurance Company and Olympus Insurance Company made voluntary principal payments of \$14.5 million and \$16.5 million, respectively, to pay off their Surplus Notes in full. In 2010, Cypress Property and Casualty Insurance Company made an additional principal payment of \$12.5 million to partially pay down its Note.

The outstanding principal balance at January 16, 2012 is \$176.3 million. Table 2 below summarizes principal payments received each quarter to date.

TABLE 2

Payment Date	No of Companies	Required Principal	Voluntary Principal Paid	Total Principal Payments
10/1/2009	3	\$ 955,882.36	\$14,500,000.00	\$15,455,882.36
1/1/2010	7	\$ 2,426,470.60	\$16,500,000.00	\$18,926,470.60
4/1/2010	8	\$ 2,727,941.19	\$12,500,000.00	\$15,227,941.19
7/1/2010	11	\$ 3,183,823.55	-	\$ 3,183,823.55
10/1/2010	11	\$ 3,183,823.55	-	\$ 3,183,823.55
1/1/2011	10*	\$ 2,816,176.49	-	\$ 2,816,176.49
4/1/2011	10*	\$ 2,816,176.49	-	\$ 2,834,176.49**
7/1/2011	10*	\$ 2,816,176.49	-	\$ 2,798,176.49
10/1/2011	10*	\$ 3,295,619.13	-	\$ 3,295,619.13
1/1/2012	10*	\$ 3,479,442.67	-	\$ 3,479,442.67

*Tower Hill Signature Insurance Company's principal payment due on January 1, 2011 was not approved by OIR, in accordance with s. 215.5595(2)(f), F.S.; and the principal payments due for the subsequent four quarters were deferred by OIR pursuant to an Order issued by OIR on February 7, 2011.

**Cypress Property & Casualty Insurance Company paid inadvertently \$18,000 too much towards principal, so to offset this overpayment, the insurer paid \$18,000 less towards principal in the next quarter.

Principal payments not approved by OIR or deferred by OIR are reamortized over the remaining life of the Surplus Note.

Interest

The interest rate on the Surplus Notes is adjusted quarterly for the term of the Surplus Note based on the 10-year Constant Maturity Treasury rate. The interest rate is determined two business days prior to the payment date in order to set the rate for the following quarter. Additional interest may be charged to insurers failing to meet the Minimum Writing Ratio and/or the Minimum Required Surplus and/or failing to maintain a level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss (further explained later). Tower Hill Signature Insurance Company's penalty interest for not meeting the minimum writing ratio for the four quarters in 2011 was waived by OIR pursuant to an Order issued by OIR on February 7, 2011. Table 3 below shows interest rates and total interest paid by quarter.

TABLE 3

<u>For Quarter Ending</u>	<u>Interest Rate</u>	<u>Total Interest Paid</u>
9/30/2006	5.22%	274,775.00
12/31/2006	4.63%	1,109,913.87
3/31/2007	4.70%	2,087,452.78
6/30/2007	4.64%	2,235,320.00
9/30/2007	5.12% *	3,541,872.21
12/31/2007	4.58% *	3,503,794.43
3/31/2008	4.11% *	4,067,131.27
6/30/2008	3.47% *	3,899,918.74
9/30/2008	3.99% *	4,016,119.46
12/31/2008	3.61% *	2,338,908.34
3/31/2009	2.11% *	1,719,937.50
6/30/2009	2.73% *	2,975,004.84
9/30/2009	3.51% *	3,772,575.00
12/31/2009	3.31% *	2,786,844.40
3/31/2010	3.80% *	2,817,522.04
6/30/2010	3.88% *	3,014,522.55
9/30/2010	2.97% *	2,312,939.42
12/31/2010	2.52% *	2,324,126.32
3/31/2011	3.38% *	2,382,211.75
6/30/2011	3.47% *	2,345,402.69
9/30/2011	3.14% *	1,487,346.85
12/31/2011	1.99%	<u>1,167,947.02</u>
		\$56,181,586.48

*Additional penalty interest charged to some insurers for not meeting the Minimum Writing Ratio and/or the Minimum Required Surplus.

As Table 3 indicates, total interest paid since inception of the program is \$56,181,586.48. Principal and interest payments received are invested in the Local Government Surplus Funds Trust Fund (“Florida PRIME”) until transferred to General Revenue.

Late Fees

Florida Statute 215.5595(2)(f)1. gives the SBA the authority to charge up to five percent for late payments or other late remittances. The payment due on January 1, 2010 from Royal Palm Insurance Company was received 13 days late. A late fee of \$18,382.35 was billed on the next invoice and remitted with the payment due on April 1, 2010. The payment due on January 1, 2011 from Tower Hill Signature Insurance Company was received 13 days late. A late fee of \$21,105.88 was billed on the next invoice and remitted with the payment due on April 21, 2011 rather than April 1, 2011 due to a delay in the review by OIR. The payment

due on April 1, 2011 from Privilege Underwriters Reciprocal Exchange was received 14 days late. A late fee of \$28,506.25 was billed on the next invoice and remitted with the payment due on July 1, 2011.

Compliance

Provisions of the Surplus Note and the Statute require each insurer to 1) meet minimum writing ratios, 2) maintain a minimum required surplus, and 3) maintain a level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss (“PML”), as further detailed in the following sections. In order to monitor compliance with these requirements, the Surplus Note requires each company submit a Quarterly Written Premium Report (Form SBA 15-3) to the OIR and the SBA. Failure to submit the Quarterly Written Premium Report is considered a condition of default on the Surplus Note.

If an insurer is in default with the provisions of the Surplus Note, the consequences include:

- Increasing the interest rate
- Accelerating the repayment of principal and interest
- Shortening the term of the Note
- Calling the Note and demanding full payment

Currently, no insurer with an outstanding Surplus Note is in default with the provisions of the Surplus Note.

1) Writing Ratio

The statute, as originally signed into law, required as a condition of the Surplus Note that the insurer commit for the life of the Note to a Minimum Writing Ratio of net written premium to surplus of at least 2:1 (except for *an insurer writing only manufactured housing policies*; American Integrity Insurance Company of Florida and Modern USA Insurance Company falling under that criteria). For example, the insurer would need to write \$2 in premiums for every \$1 of surplus. In order to monitor compliance with this requirement, a section of the Quarterly Written Premium Report (submitted by insurers quarterly) requires insurers to provide information on their direct premiums written, assumed premiums written, and ceded premiums. Each insurer’s writing ratio is determined by OIR and certified quarterly to the Board.

The Surplus Note recognized that due to an insurer’s financial situation, the insurer might not be able to immediately achieve the 2:1 ratio without causing financial stress. As long as an insurer was in the process of aggressively implementing its business plan, a reasonable delay in reaching the 2:1 ratio was considered acceptable. For each insurer, language was incorporated in the Note to address this situation and provide the proper incentive to meet the goals of the Legislature. If the insurer did not meet the time frame required by the Note, the Board and the insurer agreed to additional interest charges and/or repayment of a portion of the Note. Additional interest charges are 25 basis points or 450 basis points, depending on the degree the insurer is out of compliance. Several insurers were not able to meet the required minimum writing ratio by the agreed upon date and have paid additional interest charges. The

Compliance Report indicates which companies were required to pay additional interest charges as a result of failing to meet the writing ratio requirements. No insurers have been required to repay a portion of the Surplus Note due to writing ratios.

During the 2008 legislative session, CS/CS/SB 2860 was passed and consequently signed into law by the Governor. Section (2) of the bill relates to the Insurance Capital Build-Up Incentive Program (s. 215.5595, F.S.). The law relaxed the writing ratio requirements somewhat (s. 215.5595(2)(d), F.S.), and allowed for renegotiation of the Surplus Notes (s. 215.5595(10), F.S) for those insurers with existing Surplus Notes with the SBA. As a result, eleven Surplus Notes were renegotiated to incorporate the new time frames with the revised ratios. The law now allows for the meeting of either a net or gross writing ratio. The requirements phased in over three calendar years. The phase in for the net writing ratio was 1:1 for the first year (2008), 1.5:1 for the second year, and 2:1 for the third year and beyond. The gross writing ratio phased in over the three years as 3:1, 4.5:1, and 6:1.

The Compliance Report, showing each insurer's writing ratio(s) and compliance, as well as compliance with Minimum Required Surplus and PML requirements, is prepared each quarter. The most recent Compliance Report is provided at the end of this report and is available on the Insurance Capital Build-Up Program website at <http://www.sbafla.com/fsb/Home/InsuranceCapitalBuildUpIncentiveProgram/tabid/975/Default.aspx>.

2) Minimum Required Surplus

As a condition of the Surplus Note, each insurer must maintain a minimum surplus which includes the Surplus Note proceeds and new capital equal to \$50 million (\$14 million for insurers writing only manufactured housing policies). In order to monitor compliance with this requirement, a section of the Quarterly Written Premium Report (submitted by insurers quarterly) requires insurers to provide information on their Total Admitted Assets, Liabilities, and Capital and Surplus. Insurers not meeting the Minimum Required Surplus for any quarter must provide a detailed explanation showing how the surplus was calculated and why it is below the required amount. If the insurer fails to meet the Minimum Required Surplus, the insurer is considered to be in default on the loan except for the following circumstances:

- situations involving the payment of losses resulting from a catastrophic event or a series of events resulting in catastrophic losses
- situations where Minimum Required Surplus is reduced as a result of the accounting treatment for deferred acquisition costs
- situations where Minimum Required Surplus is reduced as a result of the repayment of principal on the Surplus Note

In 2009, there were two insurers (Olympus Insurance Company and First Home Insurance Company) whose surplus, after adjusting for deferred acquisition costs and catastrophe losses, fell below the Minimum Required Surplus of \$50 million for one or more quarters. Additional penalties were assessed accordingly. Both of these companies have paid off their Surplus Notes with the State. Additional penalties in the amount of \$78,750.00 (450 basis points) were paid by Modern USA Insurance Company on April 1, 2010 for not meeting the

Minimum Required Surplus the prior quarter. Additional penalties in the amount of \$217,463.24 (450 basis points) were paid by St John's Insurance Company on July 1, 2010 for not meeting the Minimum Required Surplus the prior quarter. Modern USA and St John's met the Minimum Required Surplus requirement as of the last reporting period of 2011; therefore, there are currently no companies with an outstanding Surplus Note in default with the Minimum Required Surplus provision of the Surplus Note.

3) 1-in-100 Year Probable Maximum Loss

The 2008 Legislature provided for an additional condition of the Surplus Note, that being, *"The insurer must also commit to maintaining a level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss, as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology, which shall be determined by the Office of Insurance Regulation and certified annually to the board. If the board determines that the insurer has failed to meet any of the requirements of this paragraph during the term of the surplus note, the board may increase the interest rate, accelerate the repayment of interest and principal, or shorten the term of the surplus note, subject to approval by the Commissioner of Insurance of payments by the insurer of principal and interest as provided in paragraph (f)."*

OIR certified on August 6, 2009 that each insurer holding a Surplus Note with the State of Florida had maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 year PML for 2009-2010.

On September 22, 2010, OIR certified the levels of surplus and reinsurance for the 2010-2011 year. The Board interpreted this letter as certification that each of the companies with an outstanding Surplus Note with the State maintained a level of surplus and reinsurance to cover its 1-in-100 year PML requirement for 2010-2011.

On October 12, 2011, OIR certified the levels of surplus and reinsurance for the 2011-2012 year. Upon further review and discussion with OIR, the Board determined this certification was inconclusive. Most companies appeared to maintain a sufficient level of surplus and reinsurance to cover its 1-in-100 year PML. Three companies did not appear to have sufficient surplus and reinsurance to cover its 1-in-100 year PML and the Board has attempted to get clarification from OIR as to which companies they had certified that maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML.

Unresolved Issues

1) Minimum Required Surplus

There was one insurer (Tower Hill Signature Insurance Company) whose surplus, after adjusting for deferred acquisition costs and catastrophe losses, fell below the Minimum Required Surplus of \$50 million for one quarter. Penalty interest in the amount of \$264,705.88 (450 basis points) for Tower Hill Signature Insurance Company not meeting the Minimum Required Surplus as of December 31, 2010 has remained under review by OIR pursuant to its letter indicating so dated March 31, 2011.

2) Late Fees

The payment due on October 1, 2011 from American Integrity Insurance Company of Florida was received 6 days late. A late fee of \$7,749.10 (5% of the late payment) was to be billed on the next invoice due January 1, 2012, but this late fee has remained under review by OIR pursuant to its letter indicating so dated December 21, 2011.

3) Writing Ratio

There was one insurer in the third quarter of 2011 (Cypress Property & Casualty Insurance Company) who failed to meet the writing ratio requirements. Penalty interest in the amount of \$3,762.87 (25 basis points) was to be billed on the invoice due January 1, 2012, but this has remained under review by OIR pursuant to its letter indicating so dated December 21, 2011.

4) 1-in-100 Year Probable Maximum Loss

As indicated earlier in this report, the certification from OIR that each insurer maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 year PML for 2011-2012 was inconclusive as to which insurers met and which insurers did not meet the requirement. The Board made several attempts by telephone with OIR to get clarification from OIR as to which companies OIR had certified that maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 year PML. Three companies did not appear to have sufficient surplus and reinsurance to cover its 1-in-100 year PML based on the October 12, 2011 certification from OIR, so the Board calculated penalty interest for those three insurers in the amounts of \$199,558.82, \$199,558.82 and \$253,676.47 (450 basis points) that was to be billed on the invoices due January 1, 2012. OIR in response in a letter dated December 16, 2011 requested, *“indication that the board determined that these insurers failed to meet one of the requirements of Section 215.5595(2)(d), and that the board determined that the interest rate should be increased because of this failure. Please provide the Office with evidence in the form of board minutes or other documents to show that the board made this determination.”*

The penalty interest continues to remain under review by OIR pursuant to its letter indicating so dated December 21, 2011. One insurer paid the interest penalty of \$253,676.47 after being advised by OIR that this penalty may be invoiced by the Board; however, the Board did not invoice the insurer. This payment by the insurer will be applied towards interest on the next quarter's invoice. The Board continued its efforts to clarify with OIR which insurers maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 year PML in its latest correspondence dated January 19, 2012.

Funds Transferred to General Revenue

During the 2009 legislative special session, SB 28A was passed by the Legislature and consequently signed into law by the Governor. The bill added language to the Insurance Capital Build-Up Incentive Program (s. 215.5595, F.S.) requiring all future principal, interest, and late fees received from insurers be transferred to the State of Florida's General Revenue Fund within 30 days of receipt. Also during the 2009 Special Session, Section 16 of the

Appropriations Bill directed the SBA to transfer to General Revenue all unrestricted moneys received as repayments of principal, interest, and late fees received from insurers to date, as well as accumulated investment earnings. As such, \$26,713,695 from repayment of interest, and earnings thereon, was transferred to General Revenue in February 2009. The remainder of the moneys (with a cost of \$1,075,316 and market value of \$672,253 at December 31, 2008) had been frozen from investor withdrawals due to that portfolio's investment in distressed illiquid securities. The funds are transferred to General Revenue quarterly as the SBA releases restrictions on the funds.

Also transferred to General Revenue in February 2009 was the investment income earned on the original appropriation of \$250 million (including the interest earned on the \$2.5 million set aside in the expense account). Before loans were made to insurers, the appropriated funds earned approximately \$8.8 million. \$8,368,141 was transferred in February 2009. The remainder of the moneys (with a cost of \$530,494 and a market value of \$331,648 at December 31, 2008) are transferred to General Revenue quarterly as the SBA releases restrictions on the funds.

To comply with the new language added to the Statute during the 2009 legislative special session, all available funds are transferred on the 25th of each January, April, July, and October. If the 25th falls on a weekend or holiday, the funds are transferred the next business day. A history of the funds transferred to General Revenue is provided in Table 4 below.

TABLE 4

Transfer Date	Interest Payments	Principal Payments	Late Fees	Investment Earnings	Release of Previously Restricted Funds*	Total Transferred to General Revenue
2/9/2009	27,075,206.10			9,594,010.11		35,081,836.30 *
4/27/2009	1,719,937.50			9,151.54	35,307.17	1,764,396.21
7/27/2009	2,787,317.34			4,266.24	66,181.48	2,857,765.06
10/26/2009	3,960,262.50	15,455,882.36		4,570.49	72,501.53	19,493,216.88
1/25/2010	2,786,844.40	18,926,470.60		11,873.91	57,256.13	21,782,445.04
4/27/2010	2,817,522.04	15,227,941.19	18,382.35	5,617.02	52,648.58	18,122,111.18
7/26/2010	3,014,522.55	3,183,823.55		4,744.78	76,900.06	6,279,990.94
10/25/2010	2,312,939.42	3,183,823.55		3,861.94	46,177.54	5,546,802.45
1/25/2011	2,324,126.32	2,816,176.49		2,985.49	35,035.33	5,178,323.63
4/25/2011	2,382,211.75	2,834,176.49	21,105.88	2,414.51	34,699.60	5,274,608.23
7/25/2011	2,345,402.69	2,798,176.49	28,506.25	2,016.09	34,068.98	5,208,170.50
10/25/2011	1,487,346.85	3,295,619.13		2,415.66	30,632.91	4,816,014.55
1/25/2012	<u>1,167,947.02</u>	<u>3,479,442.67</u>		<u>2,242.70</u>	<u>26,016.13</u>	<u>4,675,648.52</u>
	\$56,181,586.48	\$71,201,532.52	\$67,994.48	\$ 9,650,170.48	\$ 567,425.44	\$136,081,329.49

*\$1,587,379.91 of funds were restricted, and thus, unavailable for transfer in February 2009. Funds are transferred as the SBA releases restrictions.

	Meets WR	Meets MRS	Yes	No	No	Yes	Yes	No	No	Yes	Yes	N/A	Yes	N/A	N/A
06/30/2010 - Gross***	6.68	2.14	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	N/A
06/30/2010 - Net	-0.55	1.04	No	Yes	Yes	Yes	12.56	1.22	3.29	3.29	3.78	N/A	7.86	N/A	N/A
Meets WR	Yes	Yes	Yes	No	No	Yes	2.85	0.28	3.25	2.34	2.34	N/A	4.32	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	N/A
09/30/2010 - Gross***	6.64	2.18	Yes	No	No	Yes	12.98	1.40	3.40	3.68	3.68	N/A	7.77	N/A	N/A
09/30/2010 - Net	-0.34	1.08	Yes	No	No	Yes	3.01	0.90	1.13	2.27	2.27	N/A	3.81	N/A	N/A
Meets WR	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	N/A
12/31/2010 - Gross***	6.56	2.23	Yes	No	No	Yes	13.45	1.35	3.41	3.71	3.71	N/A	8.17	N/A	N/A
12/31/2010 - Net	-0.15	1.20	Yes	No	No	Yes	3.85	0.83	0.67	2.25	2.25	N/A	4.34	N/A	N/A
Meets WR	Yes	Yes	Yes	No	No	Yes	Yes	No	No	Yes	Yes	N/A	Yes	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	N/A	Yes	N/A	N/A
03/31/2011 - Gross***	6.53	2.09	Yes	No	No	Yes	13.7	1.31	3.37	3.8	3.8	N/A	8.61	N/A	N/A
03/31/2011 - Net	-0.06	1.05	Yes	Yes	Yes	Yes	3.86	0.7	0.38	1.82	1.82	N/A	4.78	N/A	N/A
Meets WR	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	N/A	Yes	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	N/A
06/30/2011 - Gross***	6.71	2.22	Yes	No	No	Yes	13.89	1.6	3.18	3.88	3.88	N/A	8.91	N/A	N/A
06/30/2011 - Net	-0.42	0.93	Yes	Yes	Yes	Yes	2.97	0.99	-1.67	1.72	1.72	N/A	4.35	N/A	N/A
Meets WR	Yes	Yes	Yes	Yes	No	Yes	Yes	N/A	No	No	No	N/A	Yes	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	N/A
09/30/2011 - Gross***	6.67	2.21	Yes	No	No	Yes	14.37	1.77	2.9	3.94	3.94	N/A	8.87	N/A	N/A
09/30/2011 - Net	0.31	0.97	Yes	Yes	Yes	Yes	2.7	1.15	0.02	1.49	1.49	N/A	4.76	N/A	N/A
Meets WR	Yes	Yes	Yes	Yes	No	Yes	Yes	N/A	No	N/A	N/A	N/A	Yes	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	N/A

Notes

(1) - For newly formed Insurers writing only manufactured housing policies, the ratio provisions are provided in Section 624.4095 F.S.

n/a - Minimum Writing Ratio is not yet required to be met based on the required writing ratio date agreed upon at the execution of the Surplus Note.

α. Per OIR Consent Order dated 02/07/11 and SBA Addendum #2, Royal Palm pays no penalty for failure to meet the minimum writing ratio for 2011.

MRS - Minimum Required Surplus to be maintained by the Surplus Note is \$50 million (\$14 million for insurers writing only manufactured housing policies).

Additional penalty paid by Olympus was 425 bps for not meeting at 12/31/08, and 450 bps for not meeting at 03/31/09 and 06/30/09.

Subsequently, the Company requested and received approval to pay the Surplus Note in full in December 2009. Therefore, no penalty was assessed for not meeting MRS at 09/30/09.

First Home did not pay a penalty for 03/31/09, as the takeout bonus due from Citizens Property Insurance was expected to cure the deficiency in MRS.

Subsequently, the Company requested and received approval to pay the Surplus Note in full on October 1, 2009. Therefore, no penalty was assessed for not meeting MRS at 06/30/09.

Additional penalty paid by Modern was 450 bps for not meeting at 12/31/09.

Additional penalty paid by St. Johns was 450 bps for not meeting at 03/31/10.

β. As of the date of this report, OIR is reviewing Royal Palm's Financial Statements to determine, what, if any, penalty will be assessed for not meeting MRS at 12/31/10.

*Beginning with the 09/30/08 quarter, companies will meet the minimum writing ratio by meeting a net ratio of 1:1, or a gross ratio of 3:1 for the remainder of 2008.

**For each quarter in 2009, companies will meet the minimum writing ratio by meeting a net ratio of 1.5:1, or a gross ratio of 4.5:1.

***Beginning in 2010, companies will meet the minimum writing ratio by meeting a net ratio of 2:1, or a gross ratio of 6:1.

****Southern Fidelity, American Capital, Privilege Underwriters and Florida Peninsula executed an addendum reducing the term by five years and eliminating the need to meet the premium to surplus ratio.

NOTE: Statute requires each insurer holding a Surplus Note maintain a "level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss, as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology, which shall be determined by the Office of Insurance Regulation and certified annually to the Board."

•OIR certified on 08/06/09 that each of the 13 companies has maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2009-2010.

•OIR certified levels of reinsurance for all companies on 09/22/10. Each company maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2010-2011.

•OIR provided information about the levels of reinsurance for all companies on 10/12/2011. Most companies appeared to maintain a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2011-2012. A few companies did not appear to have sufficient surplus and reinsurance to cover its 1 in 100 year PML and the Board is attempting to get clarification from OIR as to its certification.