

REPORT ON EXAMINATION

OF

ACA HOME INSURANCE CORPORATION

ST. PETERSBURG, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	3
HISTORY	3
GENERAL	3
CAPITAL STOCK	4
PROFITABILITY OF COMPANY	5
DIVIDENDS TO STOCKHOLDERS	5
MANAGEMENT	5
CONFLICT OF INTEREST PROCEDURE	6
CORPORATE RECORDS	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	7
SURPLUS DEBENTURES	7
AFFILIATED COMPANIES	7
TAX ALLOCATION AGREEMENT	9
INTERCOMPANY SETTLEMENT AGREEMENT	9
MANAGING GENERAL AGENT AGREEMENT	9
FIDELITY BOND AND OTHER INSURANCE	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
STATUTORY DEPOSITS	10
INSURANCE PRODUCTS	10
TERRITORY	10
TREATMENT OF POLICYHOLDERS	11
REINSURANCE	11
ASSUMED	11
CEDED	11
ACCOUNTS AND RECORDS	12
CUSTODIAL AGREEMENT	12
INDEPENDENT AUDITOR AGREEMENT	13
BROKER SERVICES AGREEMENT	13
INFORMATION TECHNOLOGY REPORT	13
FINANCIAL STATEMENTS PER EXAMINATION	13
ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS	15
STATEMENT OF INCOME	16

COMMENTS ON FINANCIAL STATEMENTS..... 17
 LIABILITIES 17
 CAPITAL AND SURPLUS..... 17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 18
SUMMARY OF FINDINGS 19
CONCLUSION 20

TALLAHASSEE, FLORIDA

January 29, 2010

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

ACA HOME INSURANCE CORPORATION
805 Executive Center Drive Suite 300
St. Petersburg, Florida 33702

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on August 18, 2009. The fieldwork commenced on August 31, 2009, and concluded as of February 5, 2010.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, or, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2007, along with resulting action taken by the Company in connection therewith.

Losses and Loss Adjustment Expenses

The Company reported \$1,275,090, which was increased to \$2,106,090 based on the opinion of the consulting actuary. We recommend the Company report losses and loss adjustment expenses on all future annual and quarterly statement filings as required in Section 625.041, Florida Statutes.

Resolution: No action was taken due to the acquisition by ACA Insurance Corporation.

HISTORY

General

The Company was incorporated in Florida on April 22, 2005, and commenced business on October 1, 2005, as Home Pointe Insurance Company. On January 23, 2008, American Capital Assurance Corp. purchased the Company and changed its name from Home Pointe Insurance Company to ACA Home Insurance Corporation.

The Company was party to Consent Order 81010-05-00 filed April 7, 2005, with the Office regarding the application for the issuance of a certificate of authority. The Company was in compliance with the provisions of this consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners multi peril	Fire
Mobile home multi peril	Allied Lines
Other liability	

The articles of incorporation and the bylaws were not amended during the period covered by this examination. On January 23, 2008, the Company was sold to American Capital Assurance Corp., a subsidiary of Safe Harbour Holdings, LLC, a Delaware domiciled insurance holding company.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, American Capital Assurance Corporation, who owned 100% of the stock issued by the Company, who in turn was 100% owned by Safe Harbour Holdings, LLC, a Delaware corporation.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2008	2007	2006	2005
Premiums Earned	(974,820)	13,793,296	12,469,203	24,488
Net Underwriting Gain/(Loss)	858,153	3,763,091	602,353	(377,648)
Net Income	1,029,771	3,359,293	686,745	224,975
Total Assets	18,190,933	17,802,342	14,699,255	7,282,312
Total Liabilities	3,205,559	2,425,279	2,464,485	(50,713)
Surplus As Regards Policyholders	14,985,374	15,377,063	12,234,770	7,333,025

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2008 in the amount of \$1,500,000.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors

Name and Location

John Franklin Auer
St. Petersburg, Florida

Marc Fasteau
New York, New York

Principal Occupation

American Strategic Insurance Corp
President, Director and CEO

Fulcrum Partners, LLC
Managing Director

Gregory Scott Hendrick
Hamilton, Bermuda

XL Re, Ltd
Senior Vice President

Kevin Robert Milkey
St. Petersburg, Florida

American Strategic Insurance Corp
Executive Vice President

James Brawner Little, III
Birmingham, AL

New Capital Partners
Managing Partner

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
John Franklin Auer	President, CEO, and Treasurer
Marc Fasteau	Secretary
Kevin Robert Milkey	Executive Vice President and Assistant Secretary
Mary Frances Fournet	Vice President
Antonio Scognamiglio	Vice President

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2008:

Investment Committee

Marc Fasteau – Chairman
John Franklin Auer
Gregory Scott Hendrick

Audit Committee

Marc Fasteau – Chairman
Gregory Scott Hendrick
James Brawner Little, III

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-138.001, Florida Administrative Code.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings, but did not reflect the Investment Committee approval of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

During the examination period, on January 23, 2008, the Company was acquired by American Capital Assurance Corporation.

Surplus Debentures

The Company did not have any surplus debentures.

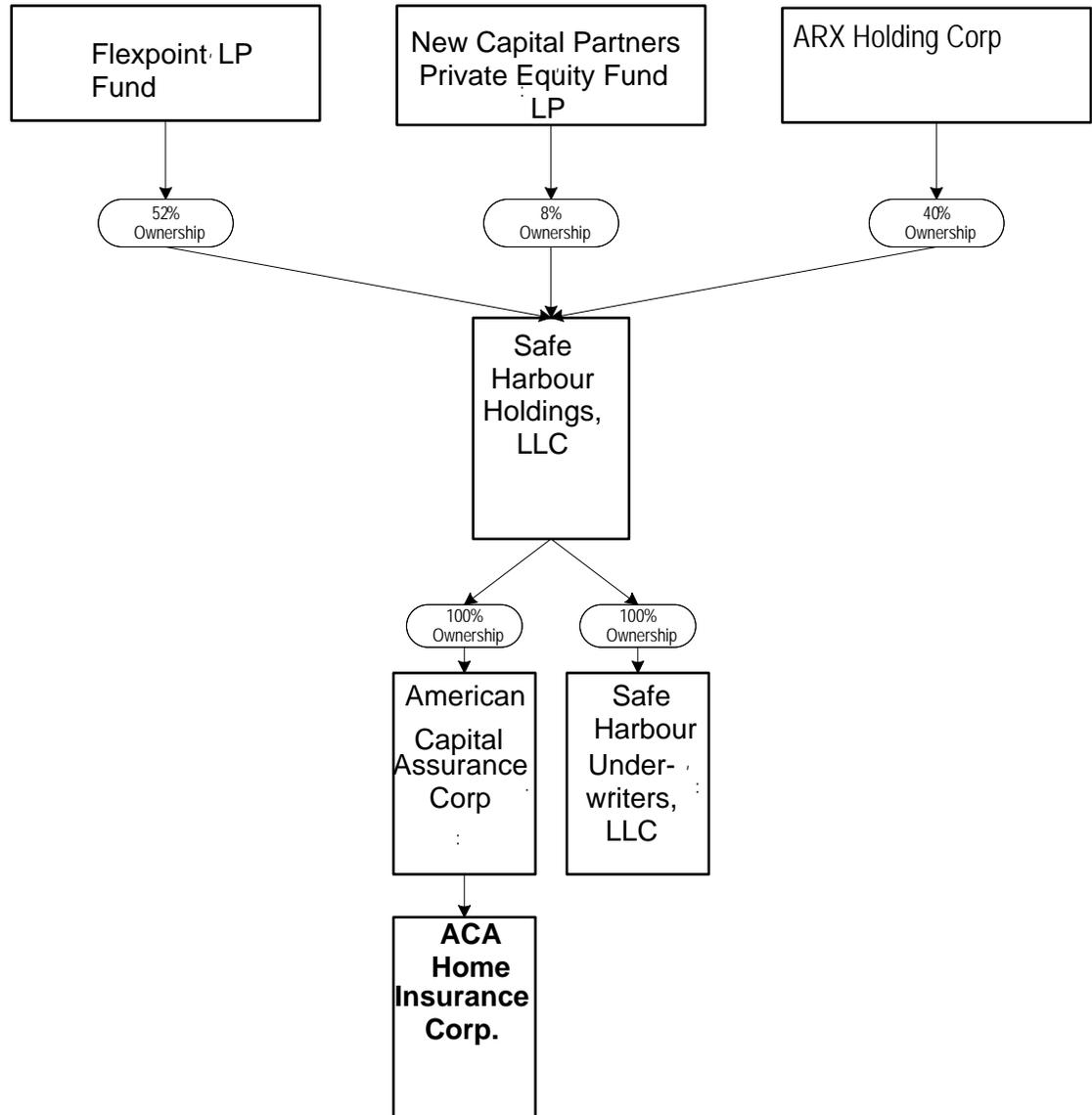
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on May 15, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**ACA HOME INSURANCE CORPORATION
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was to compute separate tax liability as if it had filed a separate tax return.

Intercompany Settlement Agreement

The Company had a cost sharing agreement entered on March 21, 2008, where one company would pay expenses on behalf of another company. Expenses included but were not limited to reinsurance settlements, federal and state taxes, shared overhead and utility and rent on leased space.

Managing General Agent Agreement

The Company had a Managing General Agency agreement between ASI Underwriters (ASIU) dated January 1, 2008, in which ASIU had the authority to receive and accept proposals for insurance coverage; solicit, underwrite and bind coverage; assemble, issue, and countersign all endorsements and policies; cancel policies, bill and collect premiums; calculate and refund return premiums; and record, reserve, adjust, settle, and pay all claims. The Company paid ASIU a fee per policy plus a percentage of direct written premium, incurred losses (except catastrophe losses), and of incurred losses from catastrophe.

FIDELITY BOND and OTHER INSURANCE

The Company maintained fidelity bond coverage with a single loss liability of \$1,000,000 with a deductible of \$25,000, and an aggregate liability of \$1,000,000 which adequately covered the suggested minimum recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	USTNTS, 4.75% 11/15/08	\$310,000	\$310,150
TOTAL SPECIAL DEPOSITS		<u>\$310,000</u>	<u>\$310,150</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume any insurance risk during this examination period.

Ceded

The Company ceded risk on a 100% quota share with North Pointe Insurance Company. Under this agreement North Pointe Insurance Company retained all losses incurred by Home Pointe occurring prior to the sale of Home Pointe. The Company also entered into a 100% quota share agreement with American Capital Assurance Corp covering all policies issued subsequent to the sale of the Company.

The reinsurance contracts were reviewed by the company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in St. Petersburg, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

Effective August 21, 2008, the Company entered in a custodial agreement with JP Morgan. The Agreement was in compliance with Rule 69O-143.042, Florida Administrative Code. The Company did not submit an approved custodial agreement to the Office as required by the criteria set forth in Section 3 Part III, of the 2008 NAIC Examiners handbook.

Subsequent event: On November 11, 2009, the Company submitted an approved custodial agreement to the Office.

Independent Auditor Agreement

Effective January 13, 2009, the Company's Board of Directors, entered into an agreement with Gregory, Sharer & Stuart, P.A. to audit the financial statements for the period of this examination.

Broker Services Agreement

Effective March 3, 2008, the Company entered into a Reinsurance Intermediary Agreement with Aon Re, Inc. to provide reinsurance services. These services included analyzing and evaluating exposures, making recommendations, negotiating premium and coverage terms, securing reinsurers' authorizations to participate, preparing preliminary contract wording, and securing signed agreements and claim services.

Information Technology Report

Highland Clark, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

ACA HOME INSURANCE CORPORATION
Assets
December 31, 2008

	Per Company	Examination	Per Examination
		Adjustments	
Bonds	\$10,643,143		\$10,643,143
Cash:	6,174,425		\$6,174,425
Investment Income	98,454		\$98,454
Agents' Balances:			\$0
Uncollected premium	21,172		\$21,172
Deferred premium	119,598		\$119,598
Reinsurance recoverable	136,492		\$136,492
EDP Equipment			\$0
Net Deferred Tax Asset	183,328		\$183,328
income due & accrued			\$0
Receivable from parents, subsidiaries and affiliates	251,015		\$251,015 \$0
Equities and deposits in pools and associations			\$0 \$0
Aggregate write-in for other than invested assets	563,306		\$0 \$563,306
Totals	<u>\$18,190,933</u>	<u>\$0</u>	<u>\$18,190,933</u>

ACA HOME INSURANCE CORPORATION
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Commissions Payable	\$40,554		\$40,554
Other expenses	109,889		109,889
Taxes, licenses and fees	(59,670)		(59,670)
Current Federal and Foreign Taxes	138,400		138,400
Advance premium	2,653,283		2,653,283
Ceded Reinsurance Payable	272,839		272,839
Payable to parent, subsidiaries and affiliates	14,058		14,058
Aggregate write-ins for liabilities	36,206		36,206
Total Liabilities	\$3,205,559	\$0	\$3,205,559
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	10,500,000		10,500,000
Unassigned funds (surplus)	3,485,374		3,485,374
Surplus as regards policyholders	\$14,985,374		\$14,985,374
Total liabilities, surplus and other funds	\$18,190,933 	\$0	\$18,190,933

ACA HOME INSURANCE CORPORATION
Statement of Income

DECEMBER 31, 2008

Underwriting Income

Premiums earned		(\$974,820)
	Deductions:	
Losses incurred		(1,010,443)
Loss expenses incurred		(264,647)
Other underwriting expenses incurred		(557,883)
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>(\$1,832,973)</u>
Net underwriting gain or (loss)		\$858,153

Investment Income

Net investment income earned		\$709,581
Net realized capital gains or (losses)		(153,988)
Net investment gain or (loss)		<u>\$555,593</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		10,711
Aggregate write-ins for miscellaneous income		236,214
Total other income		<u>\$246,925</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$1,660,671
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$1,660,671</u>
Federal & foreign income taxes		<u>630,900</u>
Net Income		\$1,029,771

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$15,377,063
Net Income		\$1,029,771
Net unrealized capital gains or losses		(48,125)
Change in net deferred tax		110,328
Change in non-admitted assets		16,337
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Dividends to Stockholders		(1,500,000)
Change in surplus as regards policyholders for the year		<u>(\$391,689)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$14,985,374</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Kufer Consultants, Inc. was retained by the Office to conduct a review of the Company's loss and loss adjustment expense reserves as of December 31, 2008. The actuary concurred with the Company's opinion.

Capital and Surplus

The amount reported by the Company of \$14,985,374, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

.

**ACA HOME INSURANCE CORPORATION
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$14,985,374
---	--------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment	\$0	\$0	\$0
LIABILITIES:			
No Adjustment	\$0	\$0	\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$14,985,374

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the comments made in the 2007 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

Investments

The Board of Directors minutes revealed that the Investment Committee did not approve of investments in its report to the Board of Directors, as required by Section 625.304, Florida Statutes.

We recommend the Company comply with the aforementioned statute regarding the Investment Committee reporting the approval of investments to the Board of Directors

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ACA HOME INSURANCE CORPORATION** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$14,985,374, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Kay Kufera, FCAS of Kufera Consultants, Inc., and Tracy Gates, CISA of Highland Clark, LLC participated in the examination.

Respectfully submitted,

Fidel S. Gonzalez
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation