

REPORT ON EXAMINATION
OF
FIRST HOME INSURANCE COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 25, 2008

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 of December 31, 2006, of the financial condition and corporate affairs of:

**FIRST HOME INSURANCE COMPANY
4500 SALISBURY ROAD, SUITE 100
JACKSONVILLE, FLORIDA 32216**

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, 2006 through December 31, 2006. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office) since the Company redomesticated to Florida in 2005. This examination commenced, with planning at the Office, on June 12, 2007, to June 15, 2007. The fieldwork commenced on June 18, 2007, and was concluded as of January 25, 2008.

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.

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, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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 report, the A.M. Best Report, 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 is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

- Reinsurance recoverable from reinsurers
- Net deferred tax asset
- Aggregate write-ins for other than invested assets
- Taxes, licenses and fees
- Current federal and foreign income taxes
- Ceded reinsurance premiums payable
- Provision for reinsurance
- Aggregate write-ins for liabilities

Status of Adverse Findings from Prior Examination

This is the first examination of the Company.

HISTORY

General

The Company was incorporated in Florida on April 4, 2005, and commenced business on May 25, 2005 as First Home Insurance Company and started primarily as a take out company.

The Company was a party to Consent Order No. 80820-05-CO filed March 24, 2005 and No. 81355-05 filed May 2, 2005 with the Office regarding the redomestication to Florida and the application for the issuance of certificates of authority. The Company was in compliance with all issued consent orders.

The Company was authorized to transact the following insurance coverage in Florida on May 25, 2005:

Fire
Allied lines
Homeowners multi peril
Inland marine

The Company had not written insurance coverage on inland marine. However, the Company requested from the Office that this line of business be retained in its Certificate of Authority because the Company primarily started as a takeout company and was given this line of business due to the exposure that was written with homeowners policies. The Company plans to offer this coverage when it starts to write its own policy.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	100
Total common capital stock	\$ 100
Par value per share	\$1.00

Control of the Company was maintained by its parent, First Home Financial Corporation (FHFC), a Delaware corporation, which owned 100 shares of common stock issued by the Company, which in turn was 100% owned by First Home Acquisition Corporation, LLC.

Profitability of Company

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

	2006	2005
Premiums Earned	16,524,334	7,781,101
Net Underwriting Gain/(Loss)	1,114,856	(6,405,262)
Net Income (Loss)	2,529,143	(6,247,884)
Total Assets	26,237,002	25,031,085
Total Liabilities	18,491,019	19,803,758
Surplus As Regards Policyholders	7,745,984	5,227,327

Dividends to Stockholders

There was no dividend declared or paid to its stockholders during the years covered by this examination.

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, 2006, were:

Directors

Name and Location	Principal Occupation
Thomas Brian Dulapa Southfield, MI	Secretary Assistant Treasurer/Assistant Secretary, First Home Insurance Agency, LLC (FHIA)
James Michael Thomas Southfield, MI	Treasurer Assistant Treasurer/Assistant Secretary, FHIA
Louis Joseph Manetti Southfield, MI	Vice President, Assistant Treasurer & Secretary, FHIA
George Douglas Patterson, Jr. Southfield, MI	President/Treasurer, FHIA
Dennis Edward Golem, Jr. Southfield, MI	Vice President, Assistant Treasurer & Assistant Secretary, FHIA

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

Senior Officers

Name	Title
Walter Michael Lefler	President
James Michael Thomas	Treasurer
Thomas Brian Dulapa	Secretary
Marcia Mae Paulsen	Assistant Secretary

The Company maintained an audit committee in accordance with Section 624.424(8)(c), Florida Statutes. Following were the audit committee and its members as of December 31, 2006:

Louis Joseph Manetti - Chairman
George Douglas Patterson, Jr.
Dennis Edward Golem, Jr.

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.

Corporate Records

The recorded minutes of the shareholders, Board of Directors, and audit committee adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

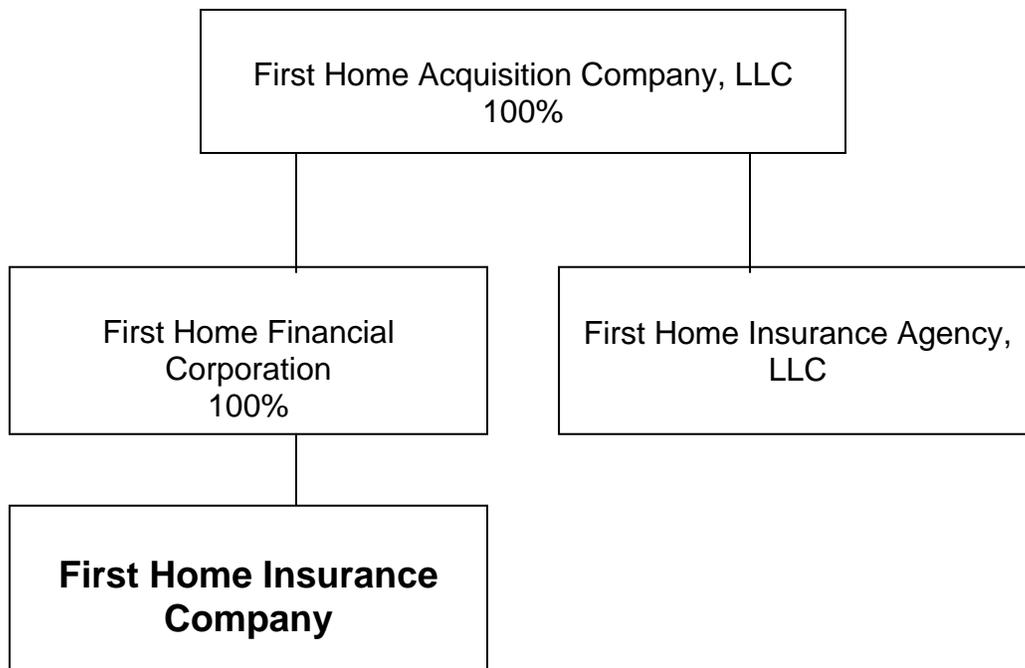
AFFILIATED COMPANIES

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 February 28, 2007 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**FIRST HOME INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Tax Allocation Agreement

The Company had a tax allocation agreement with FHFC, entered into on April 4, 2005.

Managing General Agency (MGA) Agreement

The Company entered into an MGA agreement with FHIA effective May 3, 2005. The agreement indicated that the MGA shall act as the managing general agent for the insurance policies issued in the State of Florida and further indicated that it had the authority to handle claims and negotiate reinsurance on behalf of the Company.

Service Management Agreement

The Company maintained a service management agreement with FHFC to provide the Company with management and administration services as of May 4, 2005.

FIDELITY BOND

The Company maintained a fidelity bond with aggregate limit liability coverage of up to \$2,000,000 with a deductible of \$25,000 per loss, which adequately covered the suggested minimum amount of coverage of \$450,000 for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans. All employees providing the services were employed by the parent company, FHFC.

STATUTORY DEPOSITS

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

<u>STATE</u>	<u>DESCRIPTION</u>	<u>PAR VALUE</u>	<u>MARKET VALUE</u>
FL	Cash Deposit	\$ 300,000	\$ 300,000
TOTAL FL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS

Territory

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

Treatment of Policyholders

The Company maintained complaint-handling procedures and records of all complaints received in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company adopted and implemented procedures for proper investigation of claims as required by 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 assumed risk on a quota share basis from Citizens Property Insurance Corporation that was approved by the Office in Consent Order No. 81466-05, dated May 4, 2005.

Ceded

The Company ceded risk on a quota share and excess of loss basis to various authorized and unauthorized reinsurers. All unauthorized reinsurers utilized a trust agreement or letter of credit.

All reinsurance agreements 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 office in Jacksonville, Florida. This examination was conducted in Southfield, Michigan and was completed in Jacksonville, Florida.

An independent CPA audited the Company's statutory basis financial statements for the current examination year, 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:

Independent Auditor Agreement

The Company had an agreement with BDO Seidman, LLP of Troy, Michigan to perform an audit of its statutory financial statements for 2006.

Custodial Agreement

The Company had a custodial agreement with JP Morgan Chase Bank effective April 25, 2005. The agreement was not in compliance with Rule 69O-143.042 (2) (o), Florida Administrative Code with regards to the number of days that either party can terminate the agreement. Also, the custodial agreement was not authorized and documented in the minutes of the meeting of the Board of Directors or any other committee.

Independent Actuarial Agreement

The Company had an agreement with Milliman, Inc. of New York, New York for actuarial services.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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 the report captioned, "Comparative Analysis of Changes in Surplus."

FIRST HOME INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$322,598		\$322,598
Cash and short-term investments	22,349,842		22,349,842
Agents' Balances:			
Uncollected premium	780,152		780,152
Interest and dividend income due & accrued	78,175		78,175
Reinsurance recoverable from reinsurers	1,419,708		1,419,708
Net deferred tax asset	464,726		464,726
Receivable from parents, subsidiaries and affiliates	200,149		200,149
Aggregate write-ins for other than invested assets	621,652		621,652
Totals	\$26,237,002	\$0	\$26,237,002

FIRST HOME INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$2,639,998		\$2,639,998
Loss adjustment expenses	963,601		963,601
Other expenses	312,459		312,459
Taxes, licenses and fees	534,354		534,354
Unearned premiums	2,531,538		2,531,538
Advance premium	2,537,488		2,537,488
Ceded reinsurance premiums payable	7,537,879		7,537,879
Funds held by company under reinsurance treaties	88,734		88,734
Aggregate write-ins for liabilities	1,344,967		1,344,967
Total Liabilities	\$18,491,018	\$0	\$18,491,018
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	10,999,000		10,999,000
Unassigned funds (surplus)	(3,254,016)		(3,254,016)
Surplus as regards policyholders	\$7,745,984	\$0	\$7,745,984
Total Liabilities, Surplus and Other Funds	<u>\$26,237,002</u>	<u>\$0</u>	<u>\$26,237,002</u>

FIRST HOME INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$16,524,334
DEDUCTIONS:	
Losses incurred	6,497,733
Loss expenses incurred	2,989,087
Other underwriting expenses incurred	5,922,659
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$15,409,479</u>
Net underwriting gain or (loss)	\$1,114,855
Investment Income	
Net investment income earned	\$1,164,287
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$1,164,287</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$0
Aggregate write-ins for miscellaneous income	250,000
Total other income	<u>\$250,000</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$2,529,142
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$2,529,142
Federal & foreign income taxes incurred	0
Net Income	\$2,529,142
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$5,227,328
Gains and (Losses) in Surplus	
Net Income	\$2,529,142
Net unrealized capital gains or losses	0
Change in non-admitted assets	849,422
Change in net deferred income tax	(859,909)
Examination adjustment	0
Change in surplus as regards policyholders for the year	<u>\$2,518,655</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$7,745,983</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$3,603,599

Thomas A. Ryan, FCAS, MAAA with Milliman USA, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Charles C. Emma, FCAS, MAAA of Pinnacle Actuarial Resources, Inc., contracted by the Office, reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$7,745,984, exceeds the minimum required surplus of \$4,000,000 in accordance with Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FIRST HOME INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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, 2006, per Annual Statement				\$ 7,745,984
	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>	
ASSETS:				
No adjustment was needed				
LIABILITIES:				
No adjustment was needed				
Net Change in Surplus:				\$ -
Surplus as Regards Policyholders December 31, 2006, per Examination				\$ 7,745,984

SUMMARY OF FINDINGS

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, 2006.

Custodial Agreement

The custodial agreement was not in compliance with the following:

- (1) Rule 69O-143.042(2), Florida Administrative Code, because it was not authorized by a resolution of the Board of Directors or any other committee.
- (2) Rule 69O-143.042(2)(o), Florida Administrative Code, because it must be terminable by either party on not more than thirty (30) days notice.

We recommend that the Company comply with the Florida Administrative Code, which requires:

- (1) the agreement be authorized and documented in the minutes of the meetings of the Board of Directors or any other committee, and**
- (2) the agreement contain a clause that states the agreement must be terminable by either party on not more than 30 days notice.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FIRST HOME INSURANCE COMPANY** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,745,984, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned; Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Louis D. Sobers, Financial Examiner/Analyst Supervisor, and Charles C. Emma, FCAS, MAAA of Pinnacle Actuarial Resources, Inc., participated in the examination.

Respectfully submitted,

Joel V. Bengo
Financial Examiner/Analyst II
Florida Office of Insurance Regulation