

REPORT ON EXAMINATION
OF
HOME POINTE INSURANCE COMPANY
CORAL GABLES, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 16, 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 as of December 31, 2006, of the financial condition and corporate affairs of:

**HOME POINTE INSURANCE COMPANY
901 PONCE DE LEON BLVD, SUITE 504
CORAL GABLES, FLORIDA 33134**

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 was a first year examination performed by representatives of the Florida Office of Insurance Regulation (Office). The examination commenced, with planning at the Office, on June 4, 2007, to June 8, 2007. The fieldwork commenced on June 11, 2007, and was concluded as of January 16, 2008. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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 reports, 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.

Status of Adverse Findings from Prior Examination

This was a first year examination; therefore, there was no prior examination report.

HISTORY

General

The Company was incorporated in Florida on April 22, 2005 and commenced business on October 1, 2005 as Home Pointe Insurance Company.

The Company was party to Consent Order No. 81010-05-OO filed April 7, 2005, regarding the application for the issuance of a certificate of authority with the Office. The Company was in compliance with the provisions of the consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Homeowners multi peril	Fire
Mobile Home multi peril	Miscellaneous casualty
Allied lines	Other liability
Inland marine	Burglary and Theft

The Company has not written insurance coverage in the lines of business of Inland marine, Burglary and theft and Miscellaneous casualty. The Company was not in compliance with Section 624.430 (1), Florida Statutes, which states that any insurer who does not write any premiums in a

kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its certificate of authority.

Subsequent event: The Company sent a letter to the Office, dated July 19, 2007, requesting the lines of business not written be removed from its certificate of authority. The request to remove the lines of business was approved by the Office on September 6, 2007.

The articles of incorporation and the bylaws were amended during the period covered by this examination. There were two amendments to the articles of incorporation. In the first amendment, the Company added "Chairman/CEO" in the first sentence of Article VII and in Article VIII the suite number was added to the address. The second amendment changed the amount of Paid in capital to \$1,000,000 and Gross paid in surplus to \$6,500,000.

Capital Stock

As of December 31, 2006, 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, North Pointe Financial Services, Inc., which owned 100% of the stock issued by the Company, which in turn was 100% owned by North Pointe Holdings Corporation, a Michigan financial services holding company.

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 statements.

	2006	2005
Premiums Earned	12,469,203	24,488
Net Underwriting Gain/(Loss)	602,353	(377,648)
Net Income	686,745	(224,975)
Total Assets	14,699,255	7,282,312
Total Liabilities	2,464,485	(50,713)
Surplus As Regards Policyholders	12,234,770	7,333,025

Dividends to Stockholders

The Company did not declare or pay any dividends to its stockholder during the period of the 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

James G. Petcoff
Southfield, Michigan

Principal Occupation

CEO and President
North Pointe Holding Corporation

B. Matthew Petcoff
Southfield, Michigan

COO and Executive Vice President
North Pointe Holding Corporation

Barbara J. Dobb
Commerce Township, Michigan

CPA
Dobb and Sanger, CPA, PLC

Richard J. Lindberg
Madison Heights, Michigan

Sales/Marketing
CNI, Inc.

Jorge J. Morales
Madison Heights, Michigan

CEO
CNI, Inc.

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

Senior Officers

Name	Title
James G. Petcoff	Chief Executive Officer
B. Matthew Petcoff	President
John H. Berry	Treasurer
Judith A. Wikman	Secretary
Pal Benjamin Deemer	Vice President & Chief Actuary
Nicholas J. Petcoff	Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

Audit Committee

Julius A. Otten¹
Joseph D. Sarafa
Richard J. Lindberg

Compensation Committee

Jorge J. Morales¹
Richard J. Lindberg
R. Jamison Williams, Jr.

Finance Committee

Joon S. Moon¹
Richard J. Lindberg
R. Jamison Williams, Jr.

¹ Chairman

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 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 and approval of Company transactions and events 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 purchases or sales through reinsurance.

Surplus Debentures

The Company did not have any surplus debentures.

AFFILIATED COMPANIES

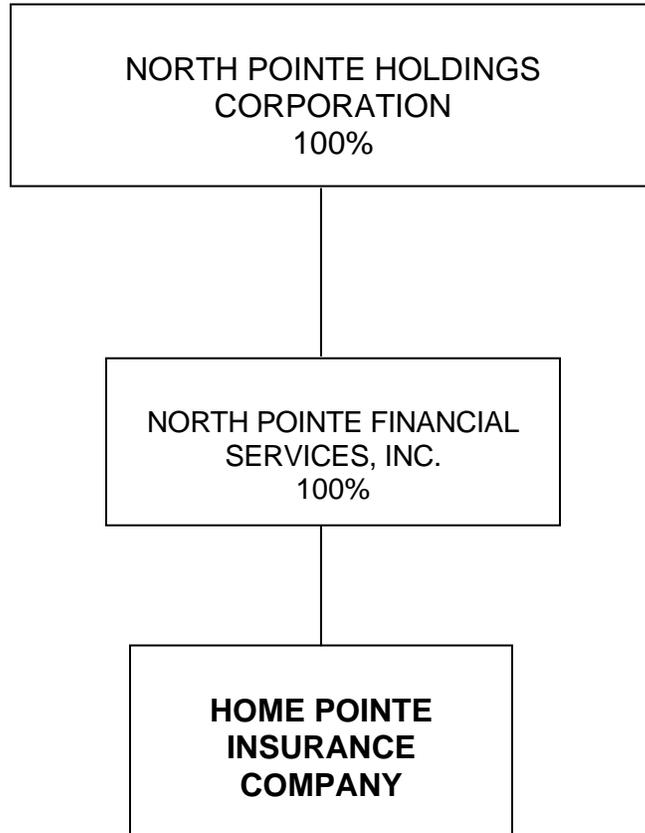
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration

statement was filed with the State of Florida on June 1, 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.

**HOME POINTE INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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, 2006, the method of allocation between the Company and its parent was to compute its tax liability as if it had filed a separate tax return.

Administration & Services Agreement

The Company had an administration and services agreement with North Pointe Financial Services, Inc. dated May 24, 2005. The agreement was for North Pointe Financial Services, Inc. to provide the Company with management services including collecting premium, administrative activity, underwriting management, corporate legal, information technology, maintenance, supplies, telephone service and postage. The Company paid a fee of 4.5% of personal lines direct written premiums for the services rendered by North Pointe Financial Services, Inc. Compensation was paid to North Pointe Financial Services, Inc. within sixty days after the end of each calendar month for the services provided.

Personal Property Lease Agreement

The Company had a personal property lease agreement with North Pointe Financial Services, Inc. dated August 29, 2005. The agreement was for the lease of facilities and equipment including information technology equipment, accounting and financial management, and also statement preparation, marketing, human resources and other services for which the Company paid North Pointe Financial Services, Inc. the sum of \$27,550 per month.

Rent Allocation Agreement

The Company had a rent allocation agreement with North Pointe Financial Services, Inc., an affiliate, dated August 29, 2005. The Company agreed to pay North Pointe Financial Services, Inc. the sum of \$10,000 per month for rent of the facilities used.

Managing General Agent Agreement

The Company had a managing general agent (MGA) agreement with Home Pointe Managing General Agency, Inc. dated May 24, 2005, in which the MGA handled all the day-to-day operations, processing, marketing, and employment for all of the Company's business. The Company agreed to pay the following fees for all services provided: 20% of personal lines direct written premiums and 23% of commercial lines direct written premiums.

Subsequent event: The MGA name changed from Home Pointe Managing General Agency to South Pointe Financial Services, Inc. on August 22, 2006.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$10,000,000 with a deductible of \$500,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership or insurance plans.

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	USTN, 4.75%, 11/15/08	<u>\$310,000</u>	<u>\$310,155</u>
TOTAL SPECIAL DEPOSITS		<u>\$310,000</u>	<u>\$310,155</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance only in 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(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 the period of this examination.

Ceded

The Company ceded 100% of the net liability of \$300,000 in excess of \$200,000 of the insurance coverages written under the personal lines business to Midfield Insurance Company, an affiliate. There were various other contracts where the Company ceded risk on a property per risk excess of loss \$1,000,000 in excess of \$1,000,000, multiple line excess of loss \$500,000 in excess of \$500,000 and catastrophe excess of loss basis. The Company was also covered by the Florida Hurricane CAT fund (FHCF) at the 90% reimbursement percentage.

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 Coral Gables, Florida. The examination was conducted at the holding company's office in Southfield, Michigan.

An independent certified public accountant (CPA) audited the Company's statutory basis financial statements annually for the years 2005 and 2006, 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

The Company had a custodial agreement with Fifth Third Bank dated June 17, 2005. The agreement was in compliance Rule 69O-143, Florida Administrative Code.

Independent Auditor Agreement

The Company's Board of Directors hired Deloitte Touche LLP, to audit the financial statements for the period during this examination.

Information Technology Report

A computer systems evaluation was not performed on the Company during the period of this examination.

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 this report captioned, "Comparative Analysis of Changes in Surplus."

HOME POINTE INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$12,191,912		\$12,191,912
Cash	996,662		996,662
Investment income due and accrued	116,161		116,161
Agents' Balances:			
Uncollected premium	836,251		836,251
Deferred premium	236,672		236,672
Reinsurance recoverable	5,611		5,611
Net deferred tax asset	273,000		273,000
Aggregate write-in for other than invested assets	42,986		42,986
	<hr/>		
Totals	\$14,699,255	\$0	\$14,699,255
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HOME POINTE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,143,346		\$1,143,346
Loss adjustment expenses	272,333		272,333
Other expenses	62,666		62,666
Taxes, licenses and fees	161,959		161,959
Current federal and foreign income taxes	122,000		122,000
Unearned premium	3,769,841		3,769,841
Ceded reinsurance premiums payable	(3,152,935)		(3,152,935)
Amounts withheld	2,416		2,416
Payable to parent, subsidiaries and affiliates	82,859		82,859
Total Liabilities	<u>\$2,464,485</u>		<u>\$2,464,485</u>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	10,500,000		10,500,000
Unassigned funds (surplus)	<u>734,770</u>		<u>734,770</u>
Surplus as regards policyholders	<u>\$12,234,770</u>		<u>\$12,234,770</u>
Total liabilities, surplus and other funds	<u>\$14,699,255</u>	<u>\$0</u>	<u>\$14,699,255</u>

HOME POINTE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		\$12,469,203
	Deductions:	
Losses incurred		3,500,049
Loss expenses incurred		592,244
Other underwriting expenses incurred		7,774,557
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$11,866,850
Net underwriting gain or (loss)		\$602,353

Investment Income

Net investment income earned		\$763,714
Net realized capital gains or (losses)		(11,388)
Net investment gain or (loss)		\$752,326

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Aggregate write-ins for miscellaneous income		(69)
Total other income		(\$69)

Net income before dividends to policyholders and before federal & foreign income taxes		\$1,354,610
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,354,610
Federal & foreign income taxes		667,865
Net Income		\$686,745

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$7,333,025
Net Income		\$686,745
Change in net deferred income tax		207,000
Change in provision for reinsurance		8,000
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		4,000,000
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$4,901,745
Surplus as regards policyholders, December 31 current year		\$12,234,770

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$1,415,679

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, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office contracted actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$12,234,770, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A Comparative analysis of changes in surplus is shown below.

**HOME POINTE 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	\$12,234,770
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, per Examination			\$12,234,770

SUMMARY OF FINDINGS

Current examination comments and corrective action

There are no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

Subsequent Event

On October 22, 2007, North Pointe Holdings Corporation entered into a Stock Purchase Agreement with respect to the disposition of all of the outstanding shares of capital stock of one of its insurance company subsidiaries, Home Pointe Insurance Company, to American Capital Assurance Corporation. The sale was completed on January 23, 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Home Pointe 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 \$12,234,770, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, and Charles C. Emma, FCAS, MAAA, Pinnacle Actuarial Resources, Inc., participated in the examination.

Respectfully submitted,

Jerry T. Golden
Financial Examiner/Analyst II
Florida Office of Insurance Regulation