

REPORT ON EXAMINATION
OF
HOMEWISE PREFERRED INSURANCE
COMPANY
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 14, 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:

**HOMEWISE PREFERRED INSURANCE COMPANY
18302 HIGHWOODS PRESERVE PARKWAY, SUITE 110
TAMPA, FLORIDA 33647**

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

SCOPE OF EXAMINATION

This examination covered the period of May 31, 2006 through December 31, 2006. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on October 9, 2007. The fieldwork commenced on October 15, 2007, and was concluded as of February 15, 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 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.

HISTORY

General

The Company was incorporated in Florida on May 31, 2006 and commenced business on May 31, 2006 as HomeWise Preferred Insurance Company.

The Company was party to Consent Order 86299-06-CO filed May 31, 2006 with the Office regarding the application for the issuance of a Permit and Certificate of Authority. The Company failed to comply with the following provision of this consent order:

- The Company did not submit its Certification of Compliance with Executive Order 13224 which states that it implemented and complied with procedures to detect and prevent transactions with terrorists and terrorist support organizations. Executive Order 13224, signed by President George W. Bush on September 23, 2001, blocks the assets of terrorist and terrorist support organizations. The Executive Order also prohibits any transactions by U.S. persons involved in the blocked assets and interests.

The Company was authorized to transact homeowners multi peril insurance coverage in Florida on December 31, 2006.

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

Control of the Company was maintained by its parent, HomeWise Holdings, Inc., who owned 100% of the stock issued by the 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 statement.

	2006
Premiums Earned	79,483
Net Underwriting Gain/(Loss)	(802,066)
Net Income/(Loss)	(506,937)
Total Assets	11,670,547
Total Liabilities	2,003,296
Surplus As Regards Policyholders	9,667,251

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder during the period 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
William E. Rose Dallas, Texas	Managing Director, HBK Services LLC
Jamiel A. Akhtar Dallas, Texas	Managing Director, HBK Services LLC
Todd C. Hart Dallas, Texas	Investment Manager, HBK Services LLC
David C. Haley Dallas, Texas	Managing Director, HBK Services LLC
Dale S. Hammond Tampa, Florida	President, HomeWise Preferred Ins. Co.

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

Senior Officers

Name	Title
Dale Hammond	President
William Sparkes	Vice President
Dennis Plante	Treasurer
Diane Falcone	Secretary
H. Peyton Hurst	Vice President

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

Executive Committee

Dale Hammond¹
Todd Hart

Audit Committee

Todd Hart ¹
Dale Hammond
Jamiel Akhtar

Investment Committee

Jamiel Akhtar ¹
William Rose
Todd Hart

¹ Chairman

Conflict of Interest Procedure

The Company had not 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 during the period under examination.

Surplus Debentures

The Company had no surplus debentures during the period under examination.

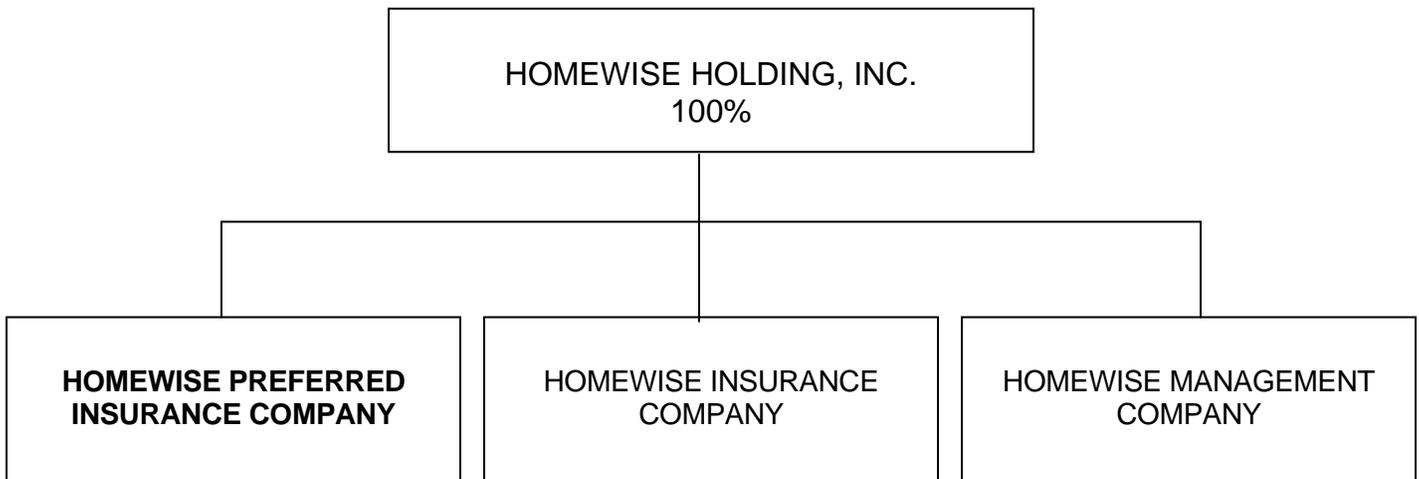
AFFILIATED COMPANIES

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.

HOMEWISE PREFERRED INSURANCE COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2006



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

Managing Agency Contract

The Company entered into a managing agency contract on May 31, 2006 with an affiliate, HomeWise Management Company, a licensed managing general agent, to provide underwriting, premium billing and related claim services. In return for its services, HomeWise Management Company received 32.5% of direct written premium and 4% of assumed premium for all business originated or produced, along with a \$25 managing agency processing fee per policy. Also, HomeWise Management Company received an amount attributable to the profitability of the Company equal to 12% of net income before taxes limited to an amount equal to 4% of the Company's direct written premiums. During 2006, HomeWise Management Company received \$469,925 pursuant to the aforementioned fees in this agreement.

Pursuant to Section 626.7451(11), Florida Statutes, HomeWise Management Company, a licensed managing general agent, charged a \$25 per-policy fee to the Company's policyholders. The Company did not include the \$25 per-policy fee in premiums in 2006, in accordance with Section 627.403, Florida Statutes.

Subsequent Event: The Company included the \$25 per-policy fee in premiums in accordance with Section 627.403, Florida Statutes, in the 2007 Annual Statement.

Service Agreement

The Company entered into a service agreement on May 31, 2006 with its parent, HomeWise Holdings, Inc. to provide financial, investment, benefit, and other management services.

HomeWise Holdings, Inc. received 1% of gross and assumed written premium for the services related to this agreement which totaled \$14,459 in 2006.

Cost Sharing Agreement

The Company had a cost sharing agreement with its parent and affiliates in which expenses benefiting more than one Company were allocated to the Companies based upon the most appropriate method for the expense, direct allocation or revenue allocation. In addition, a tax allocation agreement was made part of the cost sharing agreement. The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2006, the method of federal income tax allocation between the companies was based upon calculations on a separate return basis.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage up to \$125,000, the suggested minimum amount of coverage for the Company as recommended by the NAIC, at December 31, 2006.

Subsequent Event: The Company was included in its parent and affiliates fidelity bond coverage up to \$1,000,000, with a deductible of \$50,000, on February 21, 2007 which exceeded the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company, along with certain affiliates, also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$5,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any employees at December 31, 2006.

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	Cash	<u>\$ 304,798</u>	<u>\$ 304,798</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 304,798</u>	<u>\$ 304,798</u>

INSURANCE PRODUCTS

The Company wrote homeowners multi peril insurance coverage at December 31, 2006.

Territory

The Company was authorized to transact insurance 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 risk as of December 31, 2006.

Ceded

The Company ceded risk to the Florida Hurricane Catastrophe Fund at December 31, 2006.

The Company had no other reinsurance in effect at this date.

The reinsurance contract was reviewed by the Company's appointed actuary and was utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

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

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

Independent Auditor Agreement

The Company had an agreement with Thomas Howell Ferguson P. A. to audit the Company's statutory basis financial statements for the year 2006.

Information Technology Report

Jenny Jeffers, CISA, AES, of Jennan Enterprises performed a computer systems evaluation on the Company which included the Company's service provider for the claims system and premium system, Blue Cod Technologies. There were no significant findings noted.

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."

HOMEWISE PREFERRED INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Cash:	\$9,736,359		\$9,736,359
Aggregate write-in for invested assets	304,798		304,798
Interest Income due & accrued	8,041		8,041
Agents' Balances:			
Uncollected premium	1,445,571		1,445,571
Net deferred tax asset	174,541		174,541
Aggregate write-in for other than invested assets	1,237		1,237
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Totals	\$11,670,547	\$0	\$11,670,547
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HOMEWISE PREFERRED INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$24,147		\$24,147
Loss adjustment expenses	2,290		2,290
Other expenses	79,721		79,721
Taxes, licenses and fees	1,098		1,098
Current federal income taxes	21,842		21,842
Unearned premium	1,365,430		1,365,430
Ceded reinsurance premium payable	14		14
Payable to parent, subsidiaries and affiliates	507,726		507,726
Aggregate write-ins for liabilities	1,028		1,028
Total Liabilities	\$2,003,296	\$0	\$2,003,296
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	9,900,000		9,900,000
Unassigned funds (surplus)	<u>(332,749)</u>		<u>(332,749)</u>
Surplus as regards policyholders	<u>\$9,667,251</u>		<u>\$9,667,251</u>
Total liabilities, surplus and other funds	<u>\$11,670,547</u>	\$0	<u>\$11,670,547</u>

HOMEWISE PREFERRED INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		\$79,483
	Deductions:	
Losses incurred		24,147
Loss expenses incurred		2,290
Other underwriting expenses incurred		855,112
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$881,549
Net underwriting gain or (loss)		(\$802,066)

Investment Income

Net investment income earned		\$285,354
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$285,354

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		13,082
Aggregate write-ins for miscellaneous income		0
Total other income		\$13,082
Net income before dividends to policyholders and before federal & foreign income taxes		(\$503,630)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$503,630)
Federal & foreign income taxes		3,307
Net Income		(\$506,937)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$0
Net Income		(\$506,937)
Change in non-admitted assets		(353)
Change in net deferred income tax		174,541
Capital changes: Paid in		100,000
Surplus adjustments: Paid in		9,900,000
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$9,667,251
Surplus as regards policyholders, December 31 current year		\$9,667,251

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$26,437

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 Leigh Halliwell, FCAS, MAAA to review the reserves and work papers provided by the Company as of December 31, 2006. Mr. Halliwell and the Company reported the reserves at \$32,000 and \$26,437, respectively. The difference of \$5,563 was immaterial and no adjustment was made as a result of the examination. At December 31, 2006, the only reinsurance that the Company had was with the Florida Hurricane Catastrophe Fund, which attached at the high level of \$30.9 million per occurrence.

Subsequent Event:

Effective January 1, 2007 the Company placed 75% quota share reinsurance on policies inforce on January 1, 2007 and subsequent. On June 1, 2007 the Company placed excess of loss reinsurance to cover a 1 in a 100 year event.

Capital and Surplus

The amount reported by the Company of \$9,667,251, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A Comparative analysis of changes in surplus is shown below.

**HOMEWISE PREFERRED 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	\$9,667,251
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$9,667,251

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.

General

The Company was party to Consent Order 86299-06-CO filed May 31, 2006 with the Office regarding the application for the issuance of a Permit and Certificate of Authority. The Company failed to comply with this consent order by not submitting its Certification of Compliance with Executive Order 13224. **We recommend that the Company comply with Executive Order 13224 and submit a Certification of Compliance to the Office.**

Conflict of Interest Procedure

The Company had not adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. **We recommend that the Company adopt a policy statement requiring annual disclosure of conflicts of interest of its officers and directors.**

SUBSEQUENT EVENTS

On October 11, 2007, the Company was approved to write the following additional insurance coverage in Florida:

Fire
Inland marine

Allied lines
Other liability

On September 13, 2007, the Company's parent contributed capital to the Company in the amount of \$1,000,000.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of HomeWise Preferred 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 \$9,667,251, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Leigh Halliwell, FCAS, MAAA, and Jenny Jeffers, CISA, AES, of Jennan Enterprises participated in the examination.

Respectfully submitted,

Donna Letterio, CFE, CPA, MS
Financial Specialist
Florida Office of Insurance Regulation