

REPORT ON EXAMINATION
OF
HOMEWISE INSURANCE COMPANY
TAMPA, FLORIDA
AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 23, 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 INSURANCE COMPANY
18302 HIGHWOODS PRESERVE PARKWAY
SUITE 110
TAMPA, FLORIDA 33647**

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 statutory examination by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on October 3, 2007, to October 10, 2007. The fieldwork commenced on October 13, 2007 and was concluded as of April 23, 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 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:

Federal taxes

HISTORY

General

The Company was incorporated in Florida on November 30, 2005 and commenced business on December 5, 2005. The Company is a wholly-owned subsidiary of HomeWise Holdings, Inc. and ultimately owned by HBK Management, LLC. Its offices are located in Tampa, Florida.

The Company was party to Consent Order No. 84231-05-CO filed December 5, 2005 with the Office regarding the application for the issuance of a certificate of authority. 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 – Wind only

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., which owned 100% of the stock issued by the Company, which, in turn, was 100% owned by HBK Capital Management, LLC, a Texas based investment 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	4,337,033	0
Net Underwriting Gain/(Loss)	(996,498)	0
Net Income	(384,202)	31,287
Total Assets	28,566,558	9,538,660
Total Liabilities	19,414,204	7,373
Surplus As Regards Policyholders	9,152,354	9,531,287

Dividends to Stockholders

The Company did not declare or pay any dividends to its stockholders 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	Principal Occupation
Jamiel Akhtar Dallas, Texas	Managing Director, HBK Services LLC
Todd Hart Dallas, Texas	Investment Manager, HBK Services LLC
Dale Hammond Ocala, Connecticut	President, HomeWise Ins. Co.
William Rose Dallas, Texas	Managing Director, HBK Services LLC
David Haley Dallas, Texas	Managing Director, HBK Services LLC

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

Senior Officers

Name	Title
Dale Hammond	President & CEO
Dennis Plante	Treasurer
Diane Falcone	Secretary

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:

Executive Committee	Audit Committee	Investment Committee
Dale Hammond ¹	Todd Hart ¹	Jamiel Akhtar ¹
Todd Hart	Dale Hammond	William Rose
	Jamiel Akhtar	Todd Hart

¹ Chairman

Conflict of Interest Procedure

The Company did not adopt 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.

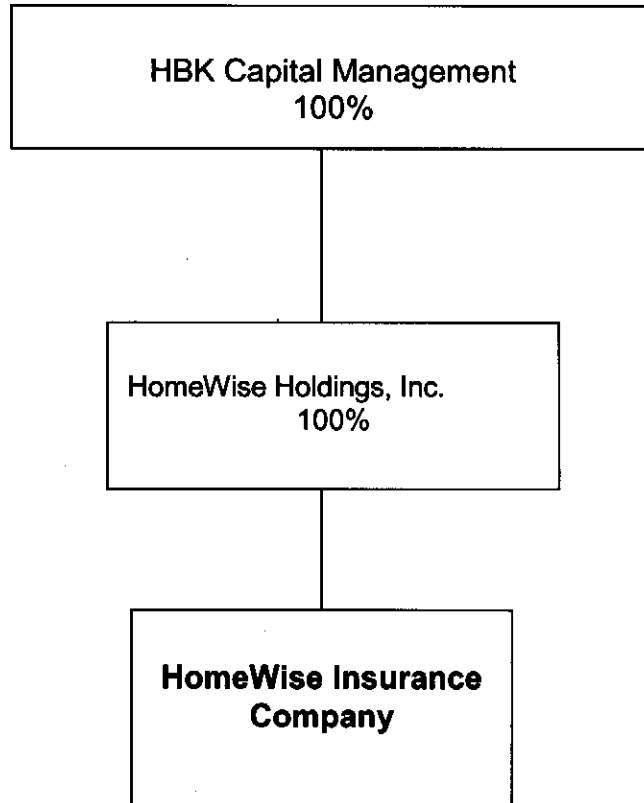
AFFILIATED COMPANIES

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 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 Insurance Company
Organizational Chart**

DECEMBER 31, 2006



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

Cost Allocation Agreement

The Company had a cost allocation agreement with HomeWise Holdings LLC, HomeWise Preferred Insurance Company, and HomeWise Management Company in which the companies from time to time incur expenses that were properly allocable among the companies. The expenses were allocated to each company and settled within ninety days of the expenses.

Service Agreement

The Company had a service agreement with HomeWise Holdings, Inc. According to the agreement, HomeWise Holdings was to assist in all reinsurance communications and negotiations and placements on behalf of the Company, provide capital management, handle investor management and relations, assist with overall general management of the Company, and otherwise provide support and advance the interests of the Company. The Company paid a fee of 1% of the direct written premium for the services rendered by HomeWise Holdings, Inc.

Managing General Agent Agreement

The Company had a managing general agent (MGA) agreement with HomeWise Management Company dated January 1, 2006, in which the MGA provided to the Company comprehensive management and administration of the Company's insurance business, supervised all underwriting and policy issuance, advised the Company regarding reinsurance coverage, negotiated reinsurance on behalf of the Company and modifications and commutations thereof, and provided claims management for the Company. The Company agreed to pay 32.5% of direct written premiums and 4% of assumed premium for the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage during the period of examination.

Subsequent Event: The Company obtained fidelity bond coverage in February 2007 in the amount of \$5,000,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC Financial Condition Examiners Handbook.

The Company and its affiliates also maintained Directors and Officers (D&O) liability insurance.

The maximum coverage was \$5,000,000 with the Company retention of \$50,000.

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	Cash	<u>\$ 326,483</u>	<u>\$ 326,483</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 326,483</u>	<u>\$ 326,483</u>

INSURANCE PRODUCTS

Territory

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

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 the period of this examination.

Ceded

The Company ceded risk on a quota share basis to Glacier Re in the amount of 75%. According to the agreement, the liability of the reinsurer shall not exceed \$4,000,000 including loss in excess of policy limits, extra contractual obligations, and loss adjustment expense as respects any one loss occurrence. The liability of the reinsurer also should not exceed 75% of

\$20,000,000 including loss in excess of policy limits, extra contractual obligations, and loss adjustment expenses as respects all loss occurrences. The Company was also covered by the Florida Hurricane Catastrophe Fund (FHCF) at the 90% reimbursement percentage with additional FHCF coverage up to \$10,000,000.

The Company also had Multi-year catastrophe coverage. The per loss occurrence retention of liability in any one contract year was the ground up portion of the ultimate net loss that had a return time of 5.3123 calculated using the Catastrophe Model and subject to a minimum of \$12,000,000. The per loss occurrence limit of liability in any one contract year was the lesser of \$30,000,000 or an amount that was equal to the ground-up loss that had a return time of 11.69 calculated using the Catastrophe Model, less the per loss occurrence retention.

The Company also had Catastrophe excess of loss coverage. The Company retained and was liable for the first \$4,000,000 of ultimate net loss arising out of each loss occurrence. The reinsurer was liable for the amount by which the ultimate net loss exceeded the Company's retention, but the liability of the reinsurer did not exceed \$1,000,000 in any one loss occurrence.

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

Subsequent Event: The Company's quota share agreement was terminated and commuted on a cutoff basis on January 1, 2007. The agreement was replaced with another quota share agreement at the same ceding percentage.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tampa, Florida, where part of this examination was conducted. The remainder of the examination was completed in Tallahassee, Florida.

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

Investment Management Agreement

The Company had an agreement with Evergreen Investment Management Company dated January 17, 2006 to manage and invest the Company's assets in accordance with Company investment guidelines.

Independent Auditor Agreement

The Company's Board of Directors hired Thomas, Howell, and Ferguson PA to audit the financial statements for the period covered by this examination.

Information Technology Report

Jenny L. Jeffers of Jennan Enterprises performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) report provided to the Company. No significant findings were 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 Insurance Company
Assets**

December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Cash	\$22,421,119		\$22,421,119
Aggregate write-in for invested assets	310,371		310,371
Investment income due and accrued	19,518		19,518
Agents' Balances:			
Uncollected premium	3,662,727		3,662,727
Reinsurance:			
Amounts recoverable	479,557		479,557
Other amounts receivable	514,500		514,500
Federal taxes recoverable	780,576		780,576
Deferred tax asset	183,011		183,011
Electronic data processing equipment	90,815		90,815
Aggregate write-in for other than invested assets	104,364		104,364
	<hr/>		
Totals	\$28,566,558	\$0	\$28,566,558
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**HomeWise Insurance Company
Liabilities, Surplus and Other Funds**

December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$70,208		\$70,208
Loss adjustment expenses	10,493		10,493
Other expenses	1,151,960		1,151,960
Unearned premium	2,663,055		2,663,055
Ceded reinsurance premiums payable	12,881,993		12,881,993
Payable to parent, subsidiaries and affiliates	1,441,633		1,441,633
Aggregate write-ins for liabilities	1,194,862		1,194,862
Total Liabilities	\$19,414,204		\$19,414,204
Common capital stock	\$100,000		\$100,000
Aggregate write-ins for special surplus funds	5,269		5,269
Gross paid in and contributed surplus	9,400,000		9,400,000
Unassigned funds (surplus)	(352,915)		(352,915)
Surplus as regards policyholders	\$9,152,354		\$9,152,354
Total liabilities, surplus and other funds	\$28,566,558		\$28,566,558

**HomeWise Insurance Company
Statement of Income**

December 31, 2006

Underwriting Income		
Premiums earned		\$4,337,033
	Deductions:	
Losses incurred		153,563
Loss expenses incurred		86,991
Other underwriting expenses incurred		5,092,977
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$5,333,531</u>
Net underwriting gain or (loss)		(\$996,498)
Investment Income		
Net investment income earned		\$653,501
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$653,501</u>
Other Income		
Net gain or (loss) from agents' or premium balances charged off		\$0
Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		(\$342,997)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>(\$342,997)</u>
Federal & foreign income taxes		41,206
Net Income		<u>(\$384,203)</u>
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$9,531,287
Net Income		(\$384,202)
Net unrealized capital gains or losses		0
Change in non-admitted assets		(177,742)
Change in net deferred income tax		183,011
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>(\$378,933)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$9,152,354</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Loss and Loss adjustment expense reserves \$90,101

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 losses and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

The Office contracted actuary, Leigh J. Halliwell, FCAS, MAAA, reviewed work papers provided by the Company and was not completely in concurrence with this opinion. However, the contracted actuary noted no material adjustments.

Capital and Surplus

The amount reported by the Company of \$9,152,354, 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 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	\$9,152,354
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments			\$0
LIABILITIES:			
No adjustments			\$0
 Net Change in Surplus:			<u>0</u>
 Surplus as Regards Policyholders December 31, 2006, Per Examination			<u>\$9,152,354</u>

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.

The Company did not have a policy statement requiring annual disclosure of conflicts of interest as recommended in the NAIC Financial Condition Examiners Handbook. **We recommend the Company adopt and maintain a conflict of interest policy, in accordance with the NAIC Financial Condition Examiners Handbook as adopted in Rule 690-138.001, Florida Administrative Code.**

SUBSEQUENT EVENTS

David Healy was replaced by Daniel Case as director of the Company in September 2007.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **HomeWise 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 \$9,152,354, in compliance with Section 624.408, Florida Statutes.

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

Respectfully submitted,

Maurice Fuller
Financial Examiner/Analyst II
Florida Office of Insurance Regulation