

REPORT ON EXAMINATION
OF
FIRST HOME INSURANCE COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 15, 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:

**FIRST HOME INSURANCE COMPANY
2300 MAITLAND CENTER PKWY.
MAITLAND 100 BUILDING, SUITE 116
MAITLAND, FLORIDA 32751**

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 September 28, 2009, to October 2, 2009. The fieldwork commenced on October 12, 2009, and concluded as of February 15, 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 Demotech rating 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 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.

Consent Order

The Company was issued Consent Order 90606-07, dated June 14, 2007, which required that the affiliate shall hold all funds collected on behalf of or for the Company as well as all return premium received from the Company in a fiduciary capacity in trust accounts. **Resolution:** The Company did not provide a copy of a trust agreement for review by the examiner. Therefore, this is considered a repeat violation. **Subsequent Event:** The Company provided a copy of the Trust Agreement, dated January 14, 2009, between Branch Banking & Trust Company as "Trustee", First Home Insurance Company as "Beneficiary" and First Home Insurance Agency, LLC as "Grantor."

Agents Balances

The Company was not in compliance with Rule 69O-138.024, Florida Administrative Code, entitled Agents' Balances in the Course of Collection, and Statement of Statutory Accounting Principles #6 regarding aging of agents' balances. The Company has been recording premiums due from its affiliated MGA as an inter-company receivable rather than as agents' balances. Therefore, no aging of the premium receivable balance was being performed by the Company on premium

amounts due. Due to the immaterial amount of Agents' Balances in the Course of Collection determined by examination, no changes were made by the examiners. **Resolution:** The Company reported premiums due from its MGA as agents' balances in the course of collection and the balance was aged in accordance with SSAP #6.

Loss and Loss Adjustment Expense Reserves

The contracted actuary determined that the net reserves were reasonably stated, but the Company's gross reserves were approximately \$3.98 million higher than the Company's booked gross loss and LAE reserves of \$7.98 million. When the Company's reinsurance was considered, the net reserve deficiency was determined to be \$149,000. That amount was considered to be immaterial and therefore, no examination changes were proposed.

Resolution: The Company reevaluated its loss and LAE reserves estimates and reported adequate reserves on both a gross and net of reinsurance basis to discharge its liabilities in filings subsequent to December 31, 2007.

HISTORY

General

The Company was incorporated in Florida on April 4, 2005, and commenced business on May 25, 2005, as First Home Insurance Company.

The Company was party to Consent Order 97316-08-CO, filed October 14, 2008, regarding the Company's custodial agreement. According to the 2007 examination report, the custodial agreement was in compliance.

The Company was also a party to Consent Order 98088-08-CO, filed October 16, 2008, regarding the assumption of policies from Citizens Property Insurance Corporation (Citizens).

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

Home-owners Multi Peril
Fire
Allied Lines

Subsequent Event: The Company received approval from the Office to add a new line of business, Commercial Multi Peril on November 16, 2009.

The Company had a contract with the Florida Hurricane Catastrophe Fund in which the Company would retain 10% of the liability. The Company's reimbursement percentage election was 90%. The Company elected not to purchase Temporary Emergency Options for Additional Coverage (TEACO) and elected to obtain Temporary Increase in Coverage Limit (TICL) coverage of \$12 billion. The Company's plan was to generate new business with slow, profitable growth and prevent over-exposure in any one area.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Capital Stock

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

Number of authorized common capital shares	100
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, a Delaware corporation, who owned 100% of the stock issued by the Company, who in turn was 100% owned by First Home Acquisition Company, LLC, a Delaware corporation. First Home Acquisition Company, LLC was 100% owned by Glencoe Acquisition, Inc., a Delaware corporation, which was owned by several investors.

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
Premiums Earned	23,152,442	9,334,727	16,524,334
Net Underwriting Gain/(Loss)	(6,574,435)	(4,862,189)	1,114,856
Net Income	(5,181,026)	(3,426,757)	2,529,143
Total Assets	74,080,781	68,050,094	26,237,002
Total Liabilities	29,659,546	18,959,979	18,491,019
Surplus As Regards Policyholders	44,421,235	49,090,115	7,745,984

Dividends to Stockholders

The Company did not declare and pay dividends to its stockholders in 2008.

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	Principal Occupation
Yana Krivozus (a) Pensacola, Florida	Investment Analyst, Glencoe Capital
W. Michael Lefler Lexington, South Carolina	President, First Home Insurance Co.
Mark Joseph Miller Ocala, Florida	Associate, Glencoe Capital
George D. Patterson Chicago, Illinois	Managing Director, Glencoe Capital Partner Fund
Bryan D. Rivers Lexington, South Carolina	CFO, Seibels Bruce Group

(a) Yana Krivozus resigned as director in 2009 and was replaced by Christopher Yoo.

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

Senior Officers

Name	Title
W. Michael Lefler	President & CEO
Louis J. Manetti	Vice President
George D. Patterson	Vice President and Asst. Secretary
Stephen A. Korducki (a)	CFO, Treasurer, and Secretary

(a) Stephen Korducki was released in April, 2009, and was replaced by Craig Bissell.

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:

Executive Committee

George D. Patterson¹
W. Michael Lefler
Stephen A. Korducki

Audit Committee

George D. Patterson¹
W. Michael Lefler
Yana Krivozus

Investment Committee

George D. Patterson¹
Yana Krivozus
W. Michael Lefler

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

The Company was not a party to any acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance.

Surplus Debentures

The Company had a surplus debenture in the amount of \$14,500,000 through a surplus loan from the Insurance Capital Build-Up Plan of the State Board Administration.

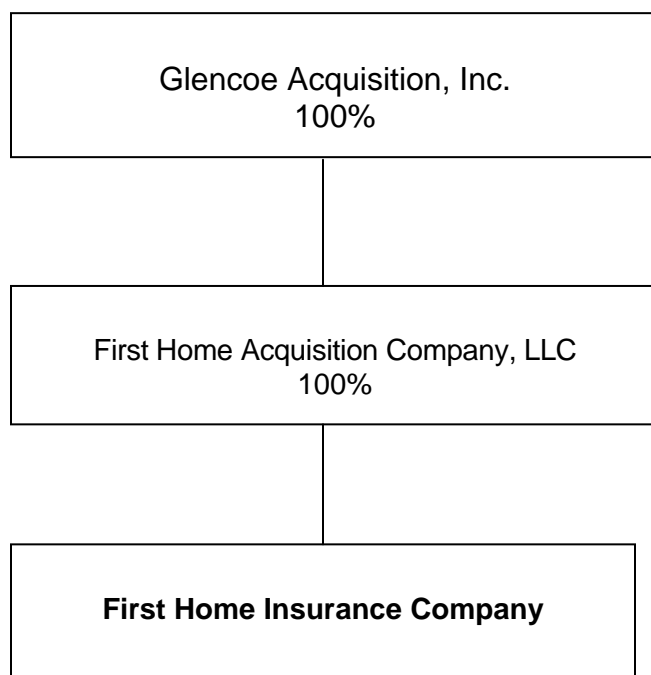
AFFILIATED COMPANIES

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 March 16, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company did not file an updated holding company registration statement to report subsequent changes in affiliates, as required by Rule 69O-143.046 (4), Florida Administrative Code. **Subsequent Event:** The updated Holding Company Statement was filed February 22, 2010.

A simplified 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.

**FIRST HOME INSURANCE COMPANY
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 and affiliates, filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was based upon calculations on a separate return basis.

Service (Management) Agreement

The Company had a service agreement with First Home Financial Corporation to provide the following services: handle all reinsurance communications, negotiations, and placements on behalf of the Company; provide capital management on behalf of the Company; handle investor relations on behalf of the Company; assists with overall general management of the Company; and otherwise provide support and advance the interests of the Company.

Managing General Agent Agreement

The managing general agent (MGA) audit report was not provided. The Company had a MGA agreement with First Home Insurance Agency, in which the MGA would provide underwriting, customer service, operations, systems, administration, and compensation to agents. First Home Insurance Agency in turn contracted with Seibels Bruce Group located in Columbia, South Carolina for those services. For these services, the Company paid First Home Insurance Agency a commission of 22% of direct written premium plus a policy fee of \$25 per policy. In addition, First Home Insurance Agency provided claims services for a fee of 6% of direct earned premium.

FIDELITY BOND INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$25,000, which covered the suggested minimum recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have a pension, stock ownership, or insurance plan. The Company's employees are covered under the First Home Insurance Agency, LLC 401K plan.

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, 6.5%, 02-15-10	<u>\$300,000</u>	<u>\$312,930</u>
TOTAL FLORIDA DEPOSITS		\$300,000	\$312,930
TOTAL SPECIAL DEPOSITS		<u>\$300,000</u>	<u>\$312,930</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 business through reinsurance other than that it obtained from the Citizens Property Insurance Company take-out program.

Ceded

The Company's ceded reinsurance program was obtained through Benfield Inc., reinsurance intermediary. Letters of credit were properly established for unauthorized reinsurers.

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 Maitland, Florida. However, the examination was conducted in Columbia, South Carolina at the home office of Seibels Bruce Group, the Agency's service provider.

An independent CPA audited the Company's statutory basis financial statements annually for the year 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, with the exception of two 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 an agreement with Branch Banking and Trust Company, dated July 2, 2008. The agreement did not contain clause (g) which states that the custodian would send clearing corporation reports from Feds and clearing corporations. This is a violation of Rule 69O-143.042 (2) (g), Florida Administrative Code. **Subsequent Event:** The Company provided an amendment to the agreement dated June 18, 2010. The agreement is now in compliance with all provisions of Rule 69O-143.042, Florida Administrative Code.

Broker Authorization Contract

The Company had a broker authorization agreement with Benfield Inc. for the purpose of procuring and servicing reinsurance.

Independent Auditor Agreement

The Company engaged BDO Seidman, LLP to perform the statutory audits of its financial statements for the examination period as required by Section 624.424 (8), Florida Statutes and Rule 69O-137.002, Florida Administrative Code.

Information Technology Report

Jennan Enterprises 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."

**First Home Insurance Company
Assets**

December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$50,076,972		\$50,076,972
Cash:	15,024,192		\$15,024,192
Agents' Balances:			
Uncollected premium	2,431,870		\$2,431,870
Deferred premium	1,804,570		\$1,804,570
Reinsurance recoverable	842,782		\$842,782
Net Deferred Tax Asset	2,419,855		\$2,419,855
Interest and dividend income due & accrued	456,759		\$456,759
Guaranty Funds Receivable or On Deposit	1,023,781		\$1,023,781
Totals	\$74,080,781	\$0	\$74,080,781

**First Home Insurance Company
Liabilities, Surplus and Other Funds**

December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$7,195,248		\$7,195,248
Loss adjustment expenses	1,064,868		1,064,868
Other expenses	501,332		501,332
Taxes, licenses and fees	210,649		210,649
Unearned premium	11,464,827		11,464,827
Ceded Reinsurance Premiums Payable	7,337,581		7,337,581
Provision for Reinsurance	33,895		33,895
Commissions Payable	1,205,103		1,205,103
Payable to parent, subsidiaries and affiliates	57,691		57,691
Aggregate write-ins for liabilities	588,352		588,352
Total Liabilities	\$29,659,546	\$0	\$29,659,546
Common capital stock	\$100		\$100
Surplus Notes	14,500,000		14,500,000
Gross paid in and contributed surplus	39,999,900		39,999,900
Unassigned funds (surplus)	(10,078,765)		(10,078,765)
Surplus as regards policyholders	\$44,421,235		\$44,421,235
Total liabilities, surplus and other funds	\$74,080,781	\$0	\$74,080,781

**First Home Insurance Company
Statement of Income**

December 31, 2008

Underwriting Income

Premiums earned		\$23,152,442
	Deductions:	
Losses incurred		12,341,998
Loss expenses incurred		3,301,899
Other underwriting expenses incurred		14,082,980
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$29,726,877
Net underwriting gain or (loss)		(\$6,574,435)

Investment Income

Net investment income earned		\$1,407,097
Net realized capital gains or (losses)		33,091
Net investment gain or (loss)		\$1,440,188

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$43,458)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		(\$43,458)
Net income before dividends to policyholders and before federal & foreign income taxes		(\$5,177,705)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$5,177,705)
Federal & foreign income taxes		3,321
Net Income		(\$5,181,026)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$49,090,115
Net Income		(\$5,181,026)
Net unrealized capital gains or losses		0
Change in non-admitted assets		(599,594)
Change in provision for reinsurance		(33,895)
Change in Net Deferred Income Tax		1,145,635
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		(\$4,668,880)
Surplus as regards policyholders, December 31 current year		\$44,421,235

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$8,260,116

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.

The actuary contracted by the Office, Glen Taylor, ACAS and Thomas A. Ryan FCAS of Taylor-Walker & Associates, Inc. reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$44,421,235, exceeded the minimum of \$4,000,000 required by 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, 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	\$44,421,235
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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:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$44,421,235

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

There were no items of interest or corrective action to be taken by the Company regarding the examination as of December 31, 2008.

SUBSEQUENT EVENTS

The Company was approved by the Office to repay its SBA Loan of \$14.5 million in the third quarter of 2009. The note was repaid in October 2009. The Office also approved the Company's request to issue an extraordinary dividend of \$3 million dollars to First Home Acquisition Company to be used to repay or reduce capital obligations for matching funds to qualify for the SBA Capital Build-Up Incentive Program (14.5 million note).

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Home Insurance Company, Inc.** 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 \$44,421,235, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, James Pafford Jr., Financial Examiner/Analyst Supervisor, Glen Taylor, ACAS and Thomas A. Ryan, FCAS, of Taylor-Walker and Associates, participated in the examination. We also recognize Jennan Enterprises' participation in the examination.

Respectfully submitted,

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