REPORT ON EXAMINATION

OF

HOMEWISE PREFERRED INSURANCE COMPANY

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 30, 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:

HOMEWISE PREFERRED 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, 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 January 4, 2010 to January 7, 2010. The fieldwork commenced on January 11, 2010, and concluded March 30, 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 on 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.

Management

The Audit Committee did not consist entirely of independent directors as provided for by Section 624.424 (8) (c), Florida Statutes. **Resolution:** As of December 31, 2008, the Company was still in violation of this Statute. However, on October 16, 2009, the Board of Directors replaced the Audit Committee member who was not independent with a member who was independent.

Corporate Records

The Audit Committee held no meetings during the period under examination. Consequently, there was no indication that the Audit Committee interacted with the external auditors. This was in violation of Section 624.424 (8) (c), Florida Statutes, which required such interaction. **Resolution:** As of December 31, 2008, the Company was still in violation of this Statute. However, on May 14, 2009, the Audit Committee met with the external auditors.

Affiliated Companies

The Managing General Agency Contract and the Service Agreement were not in compliance with Consent Order 86299-06-CO issued by the Office on May 31, 2006. These two agreements, previously failed to contain provisions as required by the Consent Order. **Resolution:** These agreements were amended to bring them into compliance with the Consent Order.

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 authorized to transact the following insurance coverage in Florida as of December 31, 2008:

Fire
Inland marine
Other liability
Allied lines
Homeowners multi peril

The Articles of Incorporation were amended in 2008 to increase the authorized stock from 1,000,000 shares at a par value of $1.00 each to 2,000,000 shares at a par value of $1.00 each. 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	2,000,000
Number of shares issued and outstanding	1,500,000
Total common capital stock	$1,500,000
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. Homewise Holdings, Inc. was 100% owned by HBK Master Fund L.P., a Cayman Islands Limited Partnership.

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	35,891,250	6,910,232	79,483
Net Underwriting Gain/(Loss)	(4,746,343)	(2,122,123)	(802,066)
Net Income	(3,021,862)	(1,877,495)	(506,937)
Total Assets	82,349,283	56,189,032	11,670,547
Total Liabilities	59,424,388	39,072,028	2,003,296
Surplus As Regards Policyholders	22,924,895	17,117,004	9,667,251

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder 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
Jamiel Andrew Akhtar Dallas, Texas	Managing Director, HBK Services LLC
Todd Christopher Hart Dallas, Texas	Investment Manager, HBK Services LLC
Dale Stephen Hammond New London, Connecticut	President and CEO of the Company
William Edward Rose Dallas, Texas	Managing Director, HBK Services LLC
Daniel Emmett Case Dallas, Texas	Analyst, HBK Services LLC

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

Senior Officers

Name	Title
Dale Stephen Hammond	President and Chief Executive Officer
Timothy Lyons Journy	Treasurer and Chief Financial Officer
William Irving Sparkes	Executive Vice President and COO
Diane Eileen Falcone	Secretary and General Counsel
Holmes Peyton Hurst, Jr.	Vice President and Chief Marketing Officer
Stephen Clay Backman	Vice President and Chief Claims Officer
Dorothy Ann Brink	Vice President and Underwriting Officer
Stephen Michael Sandford	Vice President Product and Compliance
Martha Etta Joiner	General Manager – Texas and Louisiana

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	**Audit Committee**	**Investment Committee**
Dale Stephen Hammond	Todd Christopher Hart [1]	Jamiel Andrew Akhtar [1]
Todd Christopher Hart	Dale Stephen Hammond	William Edward Rose
	Jamiel Andrew Akhtar	Todd Christopher Hart

[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.

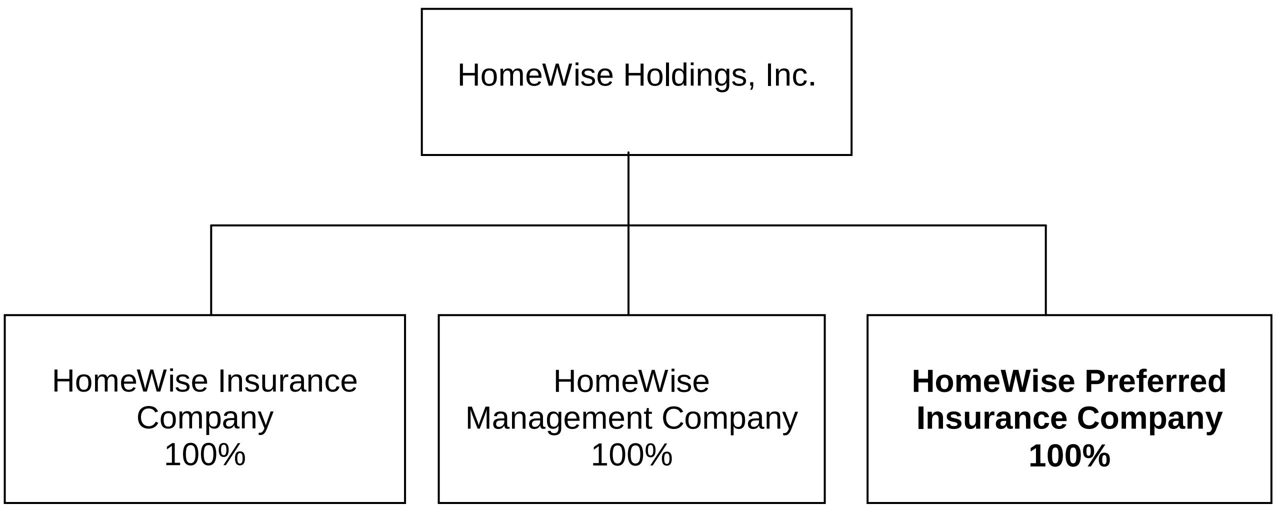
AFFILIATED COMPANIES

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 May 29, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below.

HOMEWISE PREFERRED INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2008



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

Managing General Agency Contract

The Company had a managing general agency contract with HomeWise Management Company (MGA) dated January 1, 2006, and amended December 12, 2007, and August 31, 2009. The MGA provided comprehensive management and administration of the Company's insurance business. This included but was not limited to rate, quote and issue policies of insurance, comprehensive claim services, premium collections, reinsurance advice and other services. The

MGA received 32.5% of direct written premiums and 4% of assumed premiums. For 2008, the MGA reduced its compensation to 28% of direct written premiums.

Service Agreement

The Company had a Service Agreement with HomeWise Holdings, Inc. (HHI). According to the terms of the agreement, HHI, upon request, was to assist in reinsurance negotiations, provide capital management, handle investor relations, assist with overall general management and advance the interests of the Company. For these services, HHI received a fee of 1% of direct written premiums.

Cost Allocation Agreement

The Company had an agreement with HHI, the MGA and HomeWise Insurance Company that described the allocation methods used for allocating expenses incurred by one or more of the companies conferring a direct benefit on another of the companies.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $1,000,000 with a deductible of $50,000. The bond insured the Company, its affiliated insurer and two non-insurer affiliates. The amount of coverage met NAIC guidelines when the calculation was based on the Company plus its affiliated insurer. However, if the assets and income of the two non-insurer affiliates were included, that loss limit would not meet NAIC guidelines.

The Company also maintained commercial general liability coverage, commercial umbrella coverage and other appropriate insurance. HHI, the Company's immediate parent, maintained Directors and Officers liability insurance with a liability limit of $10,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees. Consequently, there were 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	$ 336,444	$ 336,444
TOTAL FLORIDA DEPOSITS		$ 336,444	$ 336,444
SC	Cash	125,000	125,000
TX	Cash	$ 5,000,000	$ 5,000,000
TOTAL OTHER DEPOSITS		$ 5,125,000	$ 5,125,000
TOTAL SPECIAL DEPOSITS		$5,461,444	$5,461,444

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the following states:

Florida	South Carolina	Texas

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 guidelines 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 only business assumed during 2008 was from Citizens Property Insurance Company (Citizens) pursuant to a Consent Order dated and approved on September 26, 2007. There were three separate takeouts in 2008. The total number of policies assumed from Citizens during 2008 was 19,507. Assumed premiums were $17.4 million.

Ceded

The Company ceded risk on a quota share basis to Swiss Re America Corporation, an authorized reinsurer. The amount ceded was 75% and the reinsurer's per event limit was $150 million. The maximum amount recoverable from the reinsurer (aggregate loss cap) under the agreement was $300 million.

The Company also ceded risk under excess of loss agreements to authorized and unauthorized reinsurers.

Coverage was provided by the Florida Hurricane Catastrophe Fund at the 90% level. The Company purchased Temporary Increase in Coverage Limit at the $12 billion coverage option.

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 Tampa, Florida, where this examination was conducted.

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 were verified with the line items of the annual statement submitted to the Office.

The Company, its affiliated MGA, 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 financial statements for the year 2008.

Reinsurance Intermediary Agreement

The Company had an agreement with Benfield, Inc. to provide services for the Company in the placement and servicing of reinsurance agreements.

Processing Services Agreement

Effective August 22, 2006, the MGA entered into a services agreement with Blue Cod Technologies, Inc. (Blue Cod). Services performed by Blue Cod included policy services, processing claim activity, premium billing, check writing, statistical reporting, management reports and other services.

Risk Management Agreement

Effective December 1, 2005, the MGA entered into a services agreement with Insight Catastrophe Solutions, LLC (Insight). Services performed by Insight included providing risk management and other consulting services, primarily software.

Claims Services Agreement

Effective September 10, 2007, the Company, the MGA and affiliate HomeWise Insurance Company entered into a claims services agreement with Claims Service Professionals (CSP) under which CSP was to provide claim adjusting services in the event of a catastrophe.

Information Technology Report

INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were 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."

HOMEWISE PREFERRED INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Cash	$37,603,773		$37,603,773
Investment income due and accrued	15,259		15,259
Premiums and considerations:			
Uncollected premiums	19,776,276		19,776,276
Deferred premiums	10,013,741		10,013,741
Amounts recoverable from reinsurers	9,034,627		9,034,627
Current federal and foreign income tax recoverable	79,007		79,007
Net deferred tax asset	1,525,291		1,525,291
EDP equipment and software	14,017		14,017
Receivable from parent, subs and affiliates	3,098,297		3,098,297
Aggregate write-ins for other than invested assets	1,188,995	0	1,188,995
Totals	$82,349,283	$0	$82,349,283

HOMEWISE PREFERRED INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	$16,614,471		$16,614,471
Loss adjustment expenses	3,252,533		3,252,533
Other expenses	414,318		414,318
Taxes, licenses and fees	2,874,327		2,874,327
Unearned premium	18,579,951		18,579,951
Ceded reinsurance premiums payable	12,555,880		12,555,880
Payable to parent, subsidiaries and affiliates	3,972,151		3,972,151
Aggregate write-ins for liabilities	1,160,757		1,160,757
Total Liabilities	$59,424,388	$0	$59,424,388
Common capital stock	$1,500,000		$1,500,000
Gross paid in and contributed surplus	25,500,000		25,500,000
Unassigned funds (surplus)	(4,075,105)		(4,075,105)
Surplus as regards policyholders	$22,924,895	$0	$22,924,895
Total liabilities, surplus and other funds	$82,349,283	$0	$82,349,283

HOMEWISE PREFERRED INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	$35,891,250
Deductions:	
Losses incurred	19,155,493
Loss expenses incurred	5,431,991
Other underwriting expenses incurred	16,050,109
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$40,637,593
Net underwriting gain or (loss)	($4,746,343)
Investment Income	
Net investment income earned	$444,466
Net realized capital gains or (losses)	0
Net investment gain or (loss)	$444,466
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	728,320
Aggregate write-ins for miscellaneous income	0
Total other income	$728,320
Net income before dividends to policyholders and before federal & foreign income taxes	($3,573,557)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($3,573,557)
Federal & foreign income taxes incurred	(551,695)
Net Income	($3,021,862)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$17,117,004
Net Income	($3,021,862)
Change in net deferred income tax	651,035
Change in non-admitted assets	178,718
Capital changes: Paid in	500,000
Surplus adjustments: Paid in	7,500,000
Change in surplus as regards policyholders for the year	$5,807,891
Surplus as regards policyholders, December 31 current year	$22,924,895

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $19,867,004

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.

INS Consultants, Inc. (INS) was retained by the Office to conduct a review of the Company's loss and loss adjustment expense reserves as of December 31, 2008, in conjunction with the financial condition examination.

INS found the Company's gross and net loss and loss adjustment expense reserves at December 31, 2008 to be reasonably stated.

Capital and Surplus

The amount reported by the Company of $22,924,895, 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, 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				$22,924,895
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No adjustment			$0	
LIABILITIES:				
No adjustment			$0	
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2008, Per Examination				$22,924,895

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 findings in the 2008 examination.

SUBSEQUENT EVENTS

During 2009, Todd Christopher Hart and Daniel Emmett Case resigned from the Board of Directors. They were replaced by Thomas Anthony Lee and John Baker Gentry.

William Irving Sparkes, Executive Vice President and Chief Operating Officer, retired as of December 31, 2009.

In May 2009, Timothy Andrew Paddock was elected Senior Vice President and Chief Actuary.

In 2009, the Company replaced its 75% quota share treaty with Swiss Re America Corporation with a 75% quota share treaty with three reinsurers, Greenlight Reinsurance, Ltd., Hannover Reinsurance Ltd., and Signet Star Re LLC.

On February 19, 2010, the Company made a filing with the Office of a notice of discontinuance of all lines of business in Florida. No new business or renewal business will be written in Florida. Renewals of the Company's current policies can still be written through the Company's affiliate, Homewise Insurance Company.

The 2009 annual statement indicates that the Company's immediate parent, Homewise Holdings, Inc., made a contribution to the surplus of the Company in the amount of $2,000,000.

Significant events including the following have arisen which has led to the Office's approval of a runoff plan for Homewise Preferred Insurance Company (HPIC).

Combined Loss Ratios
2009 Underwriting losses
Possible sale of one or both Companies
Additional Capital Contributions or Financing
Reinsurance Program and Catastrophe retention
Administrative fees paid to the holding company and the MGA
Sinkhole losses

However, future action by the Office is contemplated for HPIC.

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, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $22,924,895, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, the following participated in the examination:
Frank Jones, Reinsurance/Financial Specialist, Florida Office of Insurance Regulation; Patricia Casey Davis, CFE, CPA, CMA, CIA, Supervising Insurance Examiner, INS Regulatory Insurance Services, Inc.; James Russo, CFE, CFE (Fraud), CPCU, FLMI, CIE, CFSA, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Jerry Smith, CFE, Insurance Examiner, INS Regulatory Insurance Services, Inc.; James Neidermyer, FCAS, MAAA, Vice President, Chief Property/Casualty Actuary, INS Consultants, Inc.; Eugene G. Thompson, ACAS, MAAA, Actuary, INS Regulatory Insurance Services, Inc.; Brian Dunn, CFE, ACL Audit Specialist, INS Consultants, Inc.; Lawrence R. Lentini, CPA, President, INS Services, Inc.; Claude Granese, CPA, Director of Finance and Quality Control, INS Services, Inc.

Respectfully submitted,

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Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation