



# **Florida Hurricane Catastrophe Fund**

## **Advisory Council Meeting**

**October 20, 2009**

# Introductory Comments

1. Meeting called to order & opening comments –  
*Jim Henderson, Chair*
2. Roll call – *Jim Henderson, Chair*
3. Approval of May 12, 2009 Minutes – *Jim Henderson, Chair*

# Agenda

- 1. Call meeting to order – *Jim Henderson, Chair***
- 2. Roll Call – *Jim Henderson, Chair***
- 3. Approval of May 12, 2009 Minutes – *Jim Henderson, Chair***
- 4. Vote to Amend Advisory Council Member Handbook – *Tracy Allen***
- 5. Financial Market Update – *John Forney, Raymond James & Associates, Inc.***
- 6. FHCF Portfolio Update and Investment Results – *Richard Smith, SBA Fixed Income***
- 7. Presentation of the October 2009 Bonding Estimates – *John Forney, Raymond James & Associates, Inc.***
- 8. Vote to Approve the October 2009 Bonding Estimates – *Jim Henderson, Chair***

# Agenda

- 9.** FHCF Chief Operating Officer's Report — *Jack Nicholson*
- 10.** Timeline for 2010 Rule Development — *Tracy Allen*
- 11.** Schedule & Agenda for Next Meeting — *Anne Bert*
- 12.** Concluding Remarks — *Jim Henderson, Chair*

# **4. Vote to Amend the Advisory Council Member Handbook**

-- Jim Henderson, Chair

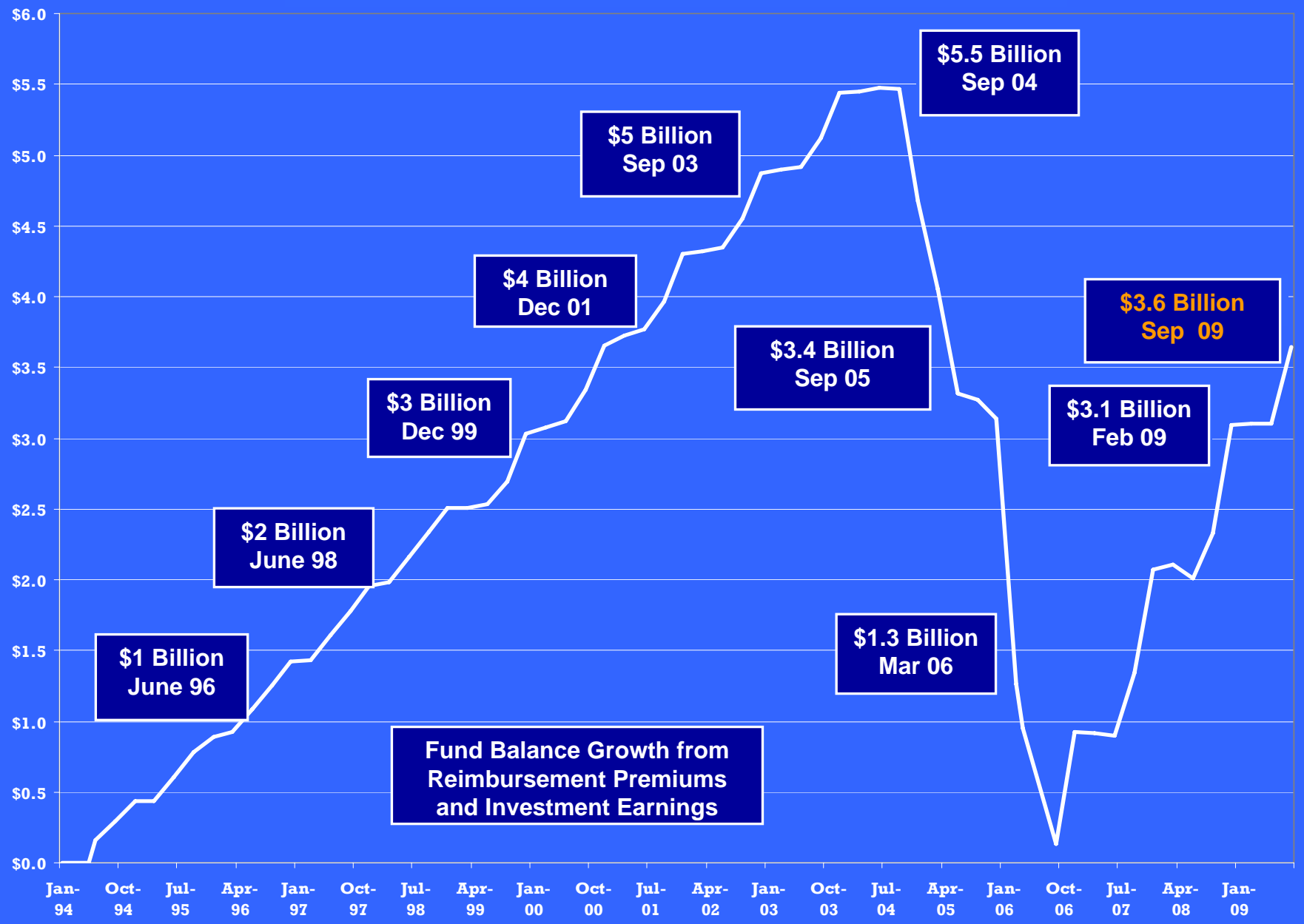
# 5. Financial Market Update

-- John Forney, Raymond James & Associates, Inc.

# 6. FHCF Portfolio Update and Investment Results

-- *Richard Smith, SBA Fixed Income*

# CATFUN Operating Fund Asset Growth From Inception to September 2009





**CATFUN OPERATING**  
As of September 30, 2009

Security Type	%	Par Value	Market Value	Avg Coupon	Unrealized Gain/(Loss)	Average Days To	
						Reset	Mat
Certificate of Deposit - Floating	26.1%	\$950,000,000	\$949,205,296	0.56%	(\$794,704)	32	188
Floating Rate Note	23.9%	\$869,500,000	\$867,877,665	0.69%	(\$1,622,335)	42	174
Repurchase Agreements	21.8%	\$793,243,000	\$793,243,000	0.05%	\$0	1	1
Certificate of Deposit - Fixed	21.7%	\$790,000,000	\$790,709,109	0.84%	\$709,109	51	51
Liquidity Notes	3.1%	\$113,505,736	\$55,886,975	0.60%	(\$57,618,761)	28	176
U.S. Agency	2.1%	\$75,000,000	\$75,027,000	0.62%	\$27,000	36	36
Corporate - Fixed	1.4%	\$50,000,000	\$48,891,000	5.70%	(\$1,109,000)	638	638
<b>TOTALS</b>	<b>100%</b>	<b>\$3,641,248,736</b>	<b>\$3,580,840,045</b>	<b>0.62%</b>	<b>(\$60,408,691)</b>	<b>32</b>	<b>117</b>

**CATFUN 2007-A**  
As of September 30, 2009

Security Type	%	Par Value	Market Value	Avg Coupon	Unrealized Gain/(Loss)	Average Days To	
						Reset	Mat
Certificate of Deposit - Floating	26.1%	\$915,000,000	\$914,952,100	0.57%	(\$47,900)	28	170
Repurchase Agreements	25.5%	\$892,694,000	\$892,694,000	0.05%	\$0	1	1
Floating Rate Note	23.4%	\$819,379,000	\$820,149,890	0.88%	\$770,890	32	113
Certificate of Deposit - Fixed	21.5%	\$755,000,000	\$755,505,477	0.70%	\$505,477	47	47
U.S. Agency	2.1%	\$75,000,000	\$75,027,000	0.62%	\$27,000	36	36
Corporate - Fixed	1.4%	\$50,000,000	\$48,891,000	5.70%	(\$1,109,000)	638	638
<b>TOTALS</b>	<b>100%</b>	<b>\$3,507,073,000</b>	<b>\$3,507,219,467</b>	<b>0.61%</b>	<b>\$146,467</b>	<b>27</b>	<b>91</b>

## CATFUN OPERATING

As Of September 30, 2009

Maturity Range	%	Par Value	Market Value	Unrealized Gain/(Loss)
0 - 7 Days	26.5%	\$963,243,000	\$963,245,502	\$2,502
8 - 14 Days	2.7%	\$100,000,000	\$99,997,544	(\$2,457)
15 - 31 Days	7.9%	\$287,000,000	\$286,874,970	(\$125,031)
32 - 59 Days	11.3%	\$410,000,000	\$410,102,937	\$102,937
60 - 89 Days	8.0%	\$290,000,000	\$290,047,933	\$47,933
90 - 119 Days	3.9%	\$142,500,000	\$142,049,470	(\$450,530)
120 - 179 Days	16.4%	\$598,505,736	\$540,663,720	(\$57,842,017)
180 - 269 Days	9.7%	\$355,000,000	\$355,197,316	\$197,316
270 - 365 Days	8.9%	\$325,000,000	\$323,902,855	(\$1,097,145)
366 - 456 Days	2.5%	\$90,000,000	\$90,785,700	\$785,700
457 - 547 Days	0.0%	\$0	\$0	\$0
548 - 638 Days	1.4%	\$50,000,000	\$48,891,000	(\$1,109,000)
639 - 1,000 Days	0.8%	\$30,000,000	\$29,081,100	(\$918,900)
<b>TOTALS</b>	<b>100%</b>	<b>\$3,641,248,736</b>	<b>\$3,580,840,045</b>	<b>(\$60,408,692)</b>

## CATFUN 2007-A

As Of September 30, 2009

Maturity Range	%	Par Value	Market Value	Unrealized Gain/(Loss)
0 - 7 Days	29.2%	\$1,022,694,000	\$1,022,695,171	\$1,171
8 - 14 Days	5.1%	\$180,000,000	\$180,001,527	\$1,527
15 - 31 Days	9.3%	\$325,000,000	\$325,020,767	\$20,767
32 - 59 Days	12.0%	\$420,000,000	\$420,126,790	\$126,790
60 - 89 Days	11.0%	\$385,000,000	\$385,139,614	\$139,614
90 - 119 Days	2.6%	\$90,000,000	\$90,033,110	\$33,110
120 - 179 Days	15.4%	\$540,000,000	\$539,690,190	(\$309,810)
180 - 269 Days	7.3%	\$255,000,000	\$255,193,644	\$193,644
270 - 365 Days	4.0%	\$139,379,000	\$139,554,655	\$175,655
366 - 456 Days	2.9%	\$100,000,000	\$100,873,000	\$873,000
457 - 547 Days	0.0%	\$0	\$0	\$0
548 - 638 Days	1.4%	\$50,000,000	\$48,891,000	(\$1,109,000)
639 - 1,000 Days	0.0%	\$0	\$0	\$0
<b>TOTALS</b>	<b>100%</b>	<b>\$3,507,073,000</b>	<b>\$3,507,219,467</b>	<b>\$146,467</b>

## CATFUN Operating Fund Cost-Based Returns

Through September 30, 2009

Period	Managed Return	Benchmark Return	Value Added
1-Month	0.28%	0.02%	0.26%
3-Months	0.46%	0.07%	0.39%
6-Months	0.81%	0.18%	0.63%
1-Year	0.39%	1.14%	(-0.75%)
3-Years	3.11%	3.28%	(-0.17%)
5-Years	3.36%	3.34%	0.02%
Since Inception 7.96	3.99%	3.61%	0.38%

## CATFUN 2007A Note Proceeds Cost-Based Returns

Through September 30, 2009

Period	Managed Return	Benchmark Return	Value Added
1-Month	0.06%	0.02%	0.04%
3-Months	0.19%	0.07%	0.12%
6-Months	0.46%	0.18%	0.28%
1-Year	1.62%	1.14%	0.48%
3-Years			
5-Years			
Since Inception 11.07	2.43%	2.13%	0.30%

# 7. Presentation of the 2009 October Bonding Capacity Estimates

-- *John Forney, Raymond James & Associates, Inc.*

# 8. Vote to Approve the 2009 October Bonding Capacity Estimates

-- *Jim Henderson, Chair*

# 9. FHCF Chief Operating Officer's Report

-- Jack Nicholson

- Legislative Changes and Impact on the FHCF
- Update on FHCF's Capacity
- Update on 2004 & 2005 Losses
- Florida Commission on Hurricane Loss Projection Methodology
- FHCF Investment Policy Guidelines
- FHCF Private Letter Ruling
- FHCF 2010-2011 Planning Conference

# 9. FHCF Chief Operating Officer's Report (cont'd)

--~~Jack Nicholson~~

- **Legislative Changes and Impact on the FHCF:**
  - Change in FHCF contract date to 1/1/xx starting 1/1/11.
  - Phase out of TICL coverage by \$2 billion per year over 6 years and increase in price of coverage by a factor of 2, 3, 4, 5, and 6 each year beginning this contract year (2009).
  - Provides for a cash build up factor of 5% initially and increases by 5% per year until it reaches 25%.
  - Reinstates the “up to” \$10 million of optional coverage below the FHCF retention for certain companies.



# 9. FHCF Chief Operating Officer's Report (cont'd) *-- Jack Nicholson*

- Update on FHCF's Capacity

# 2009/2010 Initial Season

**Not Official**  
(For Illustrative Purposes Only)

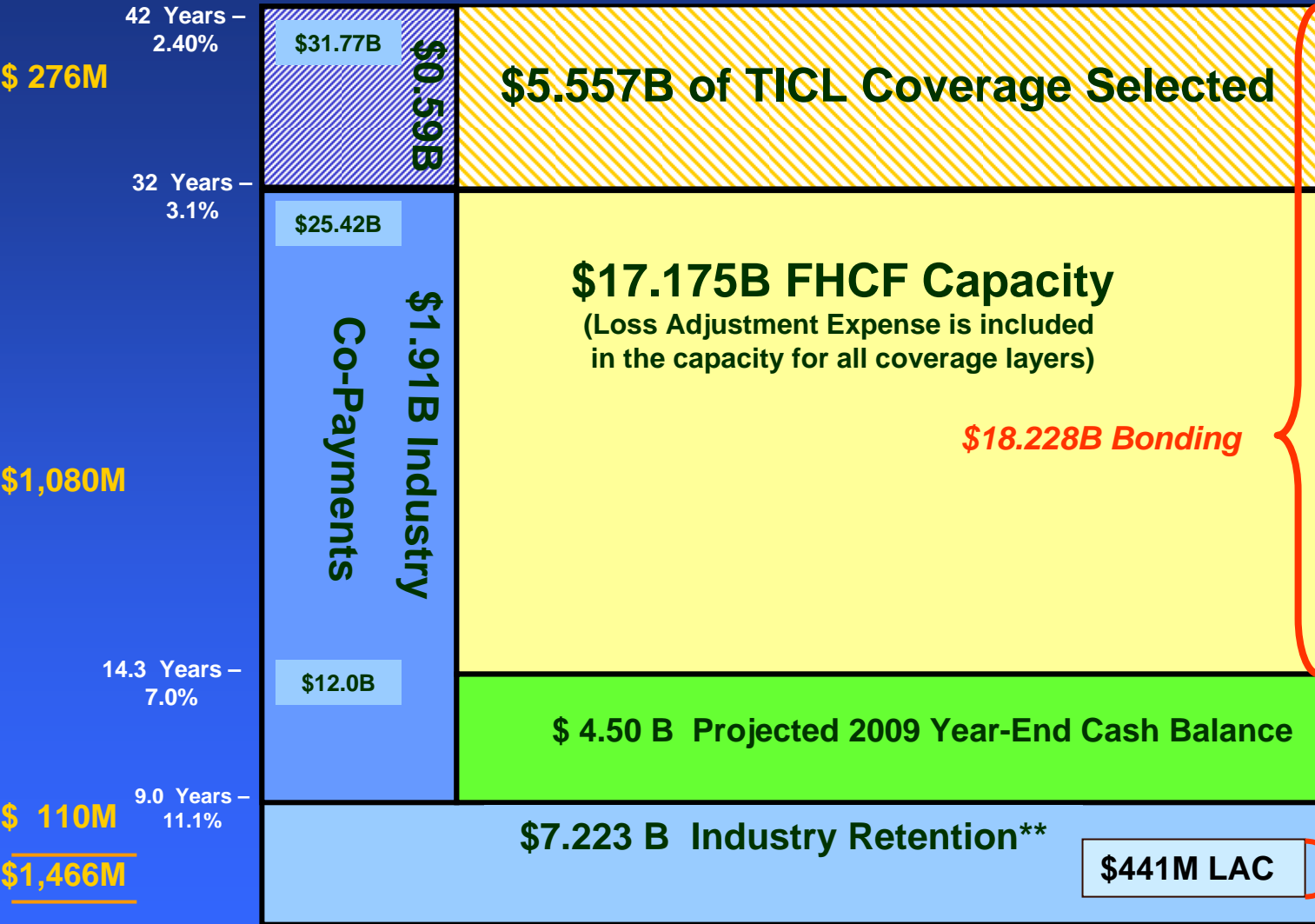
## Mandatory & Optional Coverages Selected

(Based on Actual TICL and LAC Options Selected for 2009)

**TOTAL SELECTED CAPACITY ALL COVERAGES: \$23.173 Billion**

Not Drawn to scale.  
Amounts are projected from 2008/2009 premiums or estimated.

### Premiums



**5.0% ROL**

Selected Capacity	
\$	5.557B TICL
\$	17.175B FHCF
\$	0B TEACO
\$	0.441B LAC \$10M
<b>\$ 23.173B</b>	
-	4.504B Cash
<b>\$ 18.669B Bond*</b>	

Mandatory Coverage

**6.3% ROL**

**50% ROL**

**Bonding**  
Up to \$10 Million Option

\* This number includes the \$18.228B plus the \$441M needed to fund the LAC Coverage.

\*\* Individual company retentions are their share of the industry retention.

# 2009/2010 Initial Season

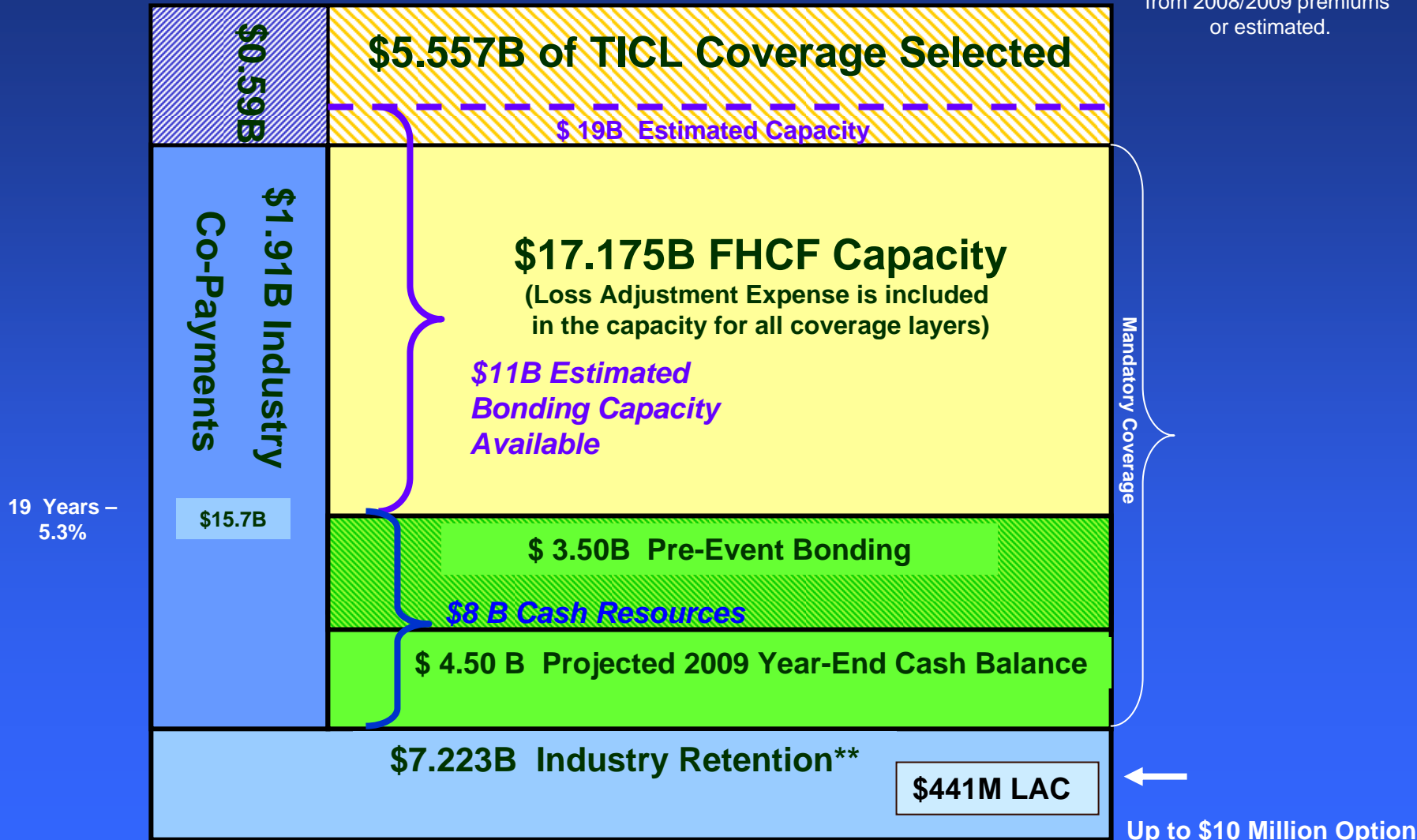
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(Based on Actual TICL and LAC Options Selected for 2009)

**TOTAL SELECTED CAPACITY ALL COVERAGES: \$23.173 Billion**

Not Drawn to scale.  
 Amounts are projected  
 from 2008/2009 premiums  
 or estimated.



\* This number includes the \$18.228B plus the \$441M needed to fund the LAC Coverage.

\*\*Individual company retentions are their share of the industry retention.

Not Drawn to scale.

# 2009/2010 Initial Season

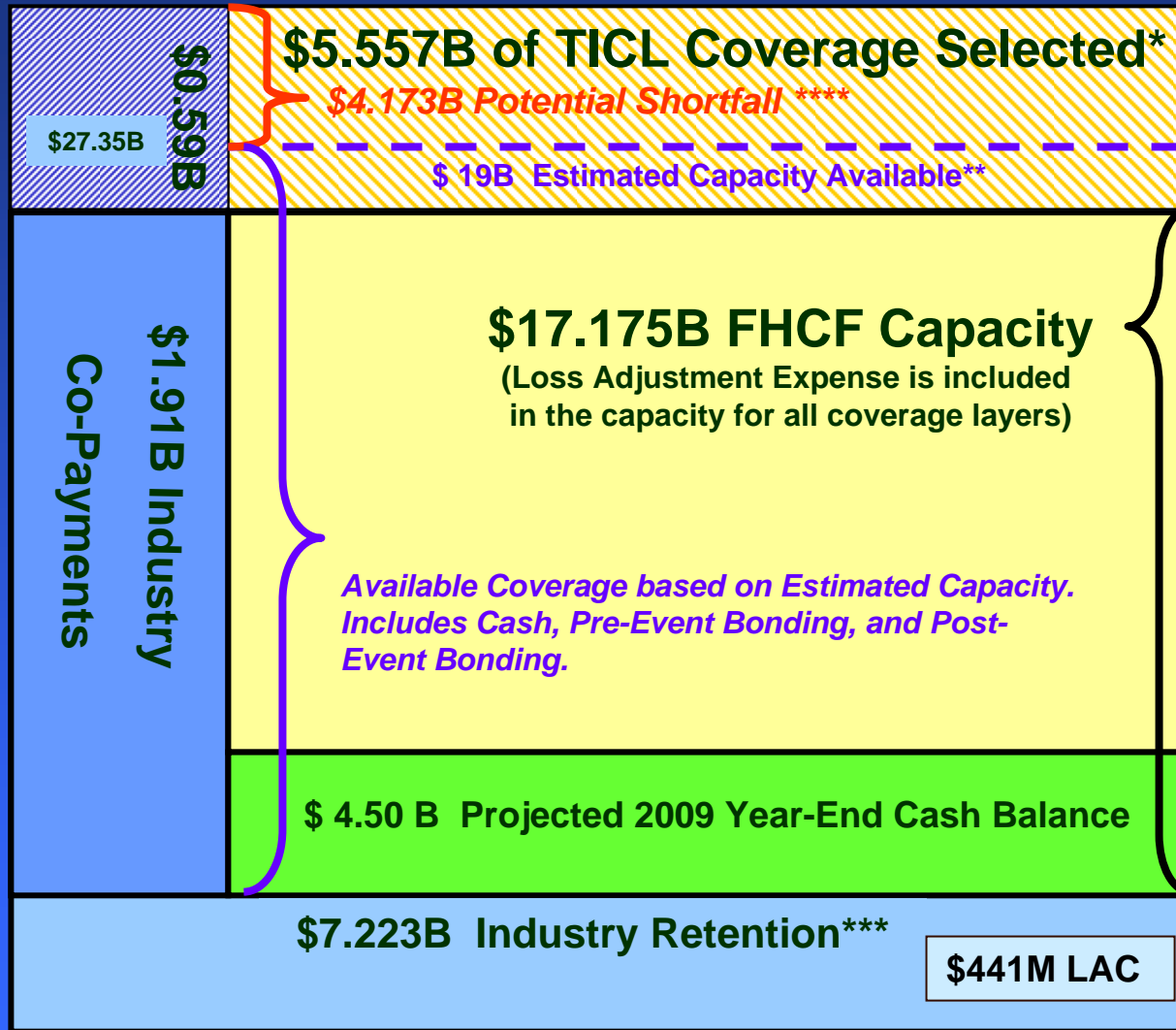
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## Mandatory & Optional Coverages Selected

(Based on Actual TICL and LAC Options Selected for 2009)  
**TOTAL SELECTED CAPACITY ALL COVERAGES: \$23.173 Billion**

Not Drawn to scale.

35 Years –  
2.86%



Mandatory Coverage

Up to \$10 Million Option  
Not Drawn to scale.

\* Amounts are projected from 2008/2009 premiums.  
 \*\* This number is based on the May 2009 Estimated Loss Reimbursement Capacity.  
 \*\*\*Individual company retentions are their share of the industry retention.  
 \*\*\*\*The potential shortfall is from the maximum theoretical capacity which includes the \$441 LAC coverage amounts.

# 9. FHCF Chief Operating Officer's Report (cont'd)

-- *Jack Nicholson*

- Update on 2004 & 2005 Losses

# 2004 & 2005 FHCF Losses as of 10-9-09

Residential Loss \$16.675 Billion

**2004**

**\$3.95 Billion**

<b>Total Losses</b>	
	<b>\$3.95 B</b>
<b>Reported Losses</b>	
98.0%	<b>\$3.871 B</b>
<b>Paid Losses*</b>	
99.25%	<b>\$3.842 B</b>

} \$79 M Reserves for future reported losses IBNR  
 } +\$29 M Reserves for reported losses  
**\$108 M** Total Cash Assets available to pay the remaining 2004 losses

Residential Loss \$11.703 Billion

**2005**

**\$5.450 Billion**

**\$ 292 M Resources**  
**\$ 654 M Outstanding**  
**\$ -362 M Projected Shortfall (Monitoring)**

<b>Total Losses</b>	
	<b>\$5.450 B</b>
<b>Reported Losses</b>	
96.73%	<b>\$5.272B</b>
<b>Paid Losses*</b>	
93.02%	<b>\$4.904 B</b>

} \$178 M Reserves for future reported losses IBNR  
 } \$368 M Reserves for reported losses  
**\$546 M** Total Cash Assets available to pay the remaining 2005 losses  
**\$654 M** outstanding to be paid

\*Note: Proof of Loss (POL) Reports were processed within 2 to 7 days until bonds were issued. Now due to "liquidation" lag, POL reports are processed within 8 to 14 days.

## **Additional Debt Issuance in 2008 Due to an Increase in Reported Losses**

- During July 2008, the FHCF continued to closely monitor cash resources for paying 2004 and 2005 claims. It was noted that reported losses were growing.
- From 3/31/06 to 6/30/08, total 2004 and 2005 reported losses increased by over \$1.4 billion.
- The FHCF's actuary increased ultimate loss estimates from \$4.5 billion established on 3/31/06 to \$5.0 billion on 5/31/08, then to \$5.2 billion on 6/30/08.
- The SBA issued an additional \$625 million of revenue bonds (Series 2008A Revenue Bonds) on 7/31/08, but at the time, the estimated shortfall was \$738 million (\$113 million less than the amount needed to pay anticipated claims given the issuance of \$625 million in debt). It was noted in the Official Statement that  
*“FHCF expects to pay any remaining shortfall from Emergency Assessments not needed for payment of debt service on Outstanding Parity Obligations, and/or from proceeds of additional Parity Obligations.”*

# The Continued Increase in Reported Losses

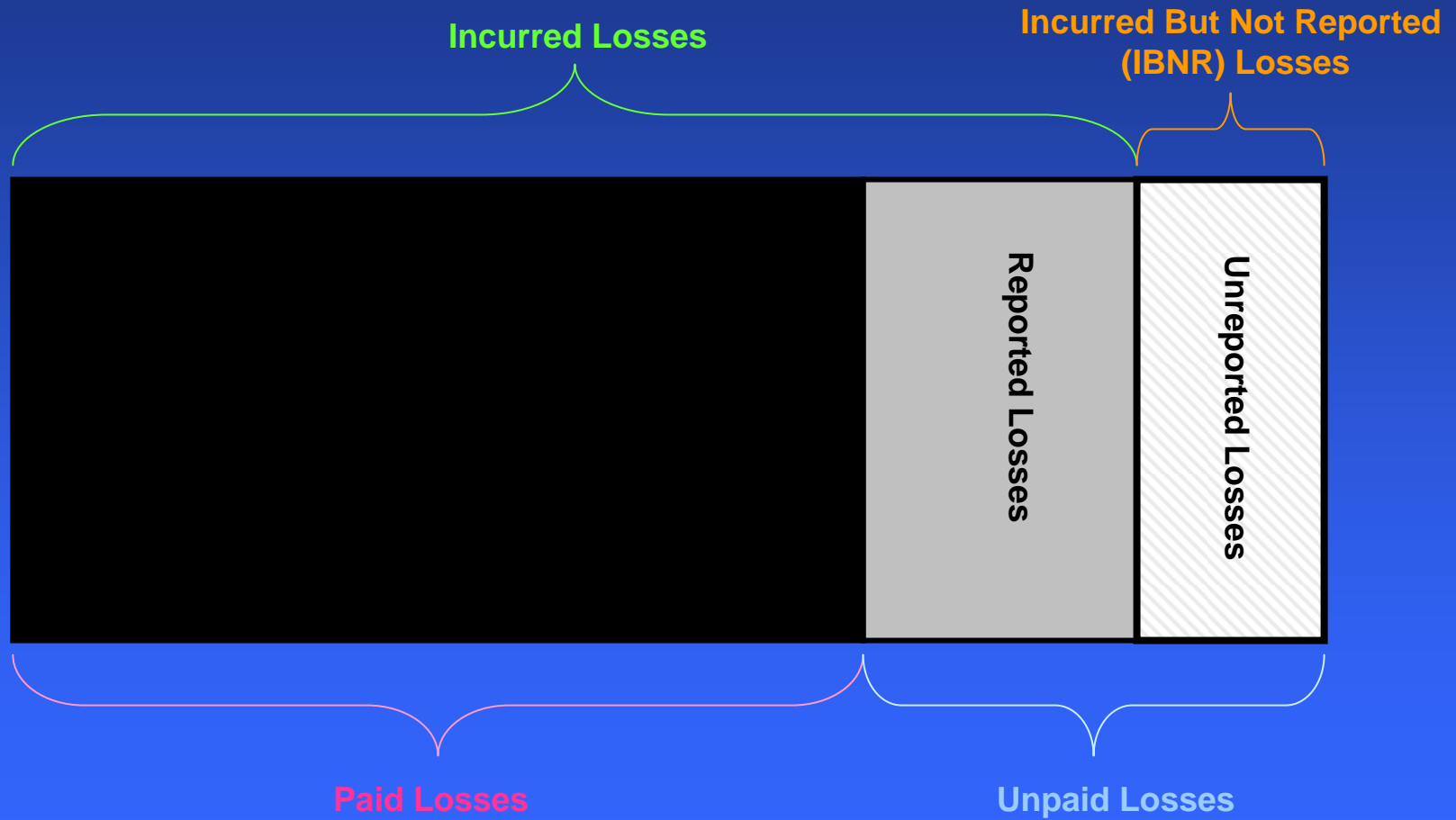
- Since the \$625 million was issued on July 31, 2008, the FHCF has continued to closely monitor reported losses.
  - The gap has now increased from \$113 million to currently \$362 million.
  - The FHCF's actuary has increased the 2005 Ultimate Loss estimate to \$5.45 billion.
  - Outstanding losses
    - For 2004, \$108 million
    - For 2005, \$546 million
    - TOTAL \$654 million
  - Existing Resource for paying prior years claims
    - \$292 million
  - Additional Resources projected to be needed
    - \$362 million (current estimate, could change with new data)
  - Amount: may range from \$300 million - \$600 million
  - When: Four to Eight Months?
  - Funding: Emergency Assessments



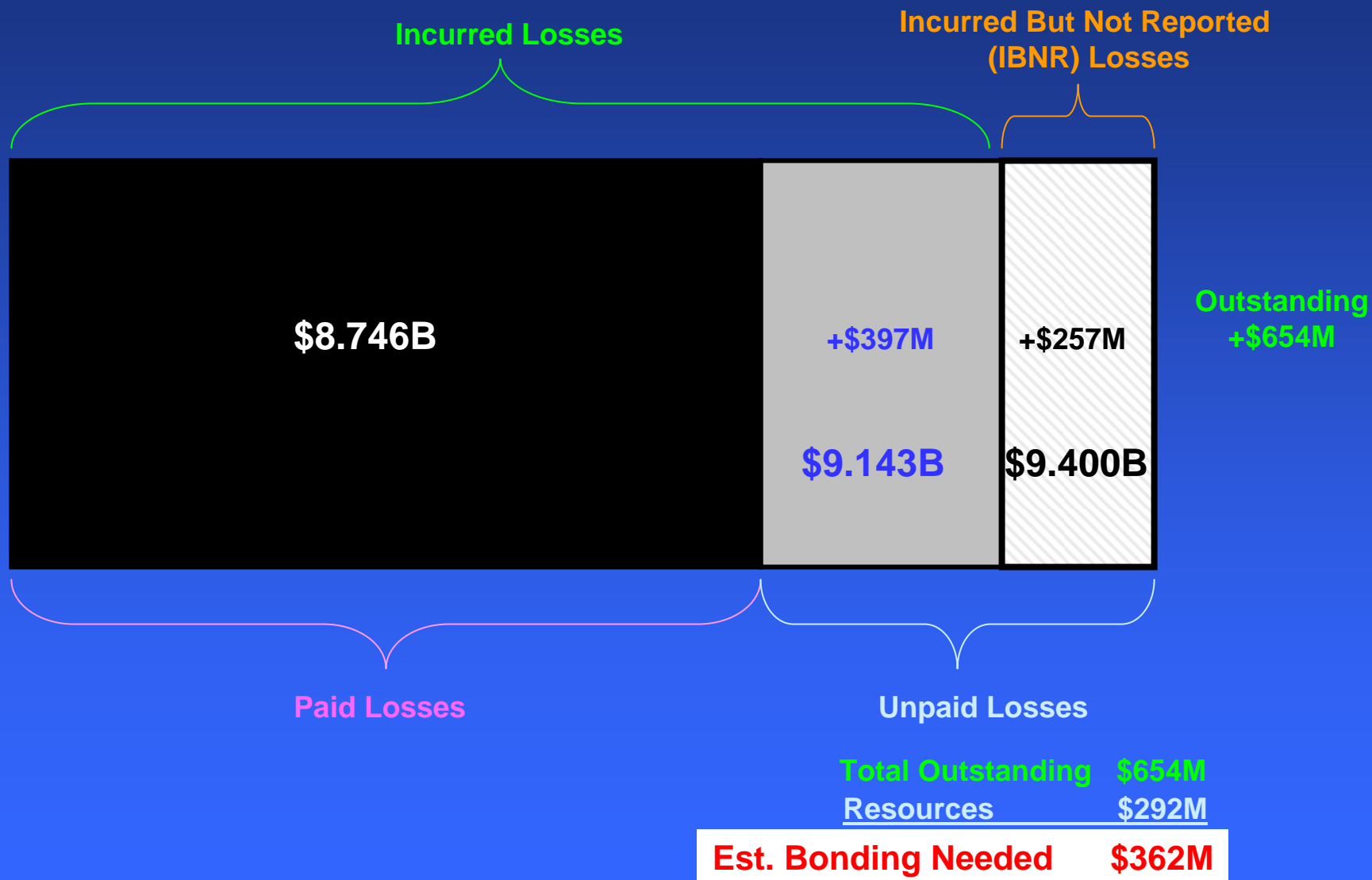
# Uncertainty

- At best, there will continue to be uncertainty associated with FHCF 2004 and 2005 losses until all losses are commutated with insurers.
- Commutation for 2004 is expected to be done by June 2010 (>8 months from now).
- Commutation for 2005 losses is expected to be done by June 2011 (>20 months from now).\
- The problem is that the FHCF could run short of funds to reimburse insurers prior to this.
- The factors impacting losses include the following:
  - New and reopened claims
  - Commercial liability suits
  - Loss examination program
  - Commutation

# Losses



# 2004/2005 Losses



# Comparison of Paid versus New Claims

In \$ Millions

	2004 Losses		2005 Losses		Total Losses		Net
	Paid	New	Paid	New	Paid	New	
7/31/08	14	9	87	9	101	18	83
8/31/08	5	-6	6	2	11	-4	15
9/30/08	2	5	25	42	27	47	-20
10/31/08	5	3	71	83	76	86	-10
11/30/08	0	5	7	38	7	43	-36
12/31/08	8	1	34	28	42	29	13
1/31/09	3	4	35	19	38	23	15
2/28/09	1	0	15	0	16	0	16
3/31/09	1	2	14	24	15	26	-11
4/30/09	3	-1	38	36	41	35	6
5/31/09	0	0	10	5	10	5	5
6/30/09	0	5	13	29	13	34	-21
7/31/09	3	-1	52	41	55	40	15
<b>TOTALS</b>	<b>45</b>	<b>26</b>	<b>407</b>	<b>356</b>	<b>452</b>	<b>382</b>	<b>70</b>

# 9. FHCF Chief Operating Officer's Report (cont'd)

--~~Jack Nicholson~~

- Florida Commission on Hurricane Loss Projection Methodology
- FHCF Investment Policy Guidelines
- FHCF Private Letter Ruling
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# 10. Timeline for 2010 Rule Development

-- *Tracy Allen*

# 11. Schedule & Agenda for Next Meeting

-- *Anne Bert*

# 12. Concluding Remarks

-- *Jim Henderson, Chair*