

# **Insurance Capital Build-Up Incentive Program**

**Administered by the  
State Board of Administration of Florida**

**Annual Report to the President of the Senate and the  
Speaker of the House of Representatives**

**February 1, 2011**

# **Insurance Capital Build-Up Incentive Program**

## **Annual Report to the President of the Senate and the Speaker of the House of Representatives**

### **Purpose and Scope**

Section 215.5595(9), Florida Statutes requires the State Board of Administration to submit a report to the President of the Senate and the Speaker of the House of Representatives by February 1 of each year as to the results of the Insurance Capital Build-Up Incentive Program and each insurer's compliance with the terms of its Surplus Note.

### **Introduction & History**

The Insurance Capital Build-Up Incentive Program (Program), administered by the State Board of Administration (SBA or Board), was created in s. 215.5595, F.S. (the Statute) for the purpose of providing an incentive for investors to commit additional capital to Florida's residential insurance market and to write a minimum level of premiums for residential hurricane coverage.

The Legislature appropriated \$250 million for the Program. The Legislature specified that \$2.5 million (or 1 percent of the appropriated amount) was to be set aside to pay the administrative costs and fees incurred during the duration of the Program, leaving \$247.5 million available to loan to insurers pursuant to the Program.

The SBA approved an emergency rule (Rule19ER06-3, F.A.C.) on May 31, 2006, in order to implement the Program. The emergency rule was subsequently incorporated into Rule 19-15.001, F.A.C. The SBA emergency rule established time frames for insurers to submit their application under the Program. The first time frame was June 1 to June 15, 2006. The second time frame was June 16 to July 1, 2006. The final time frame was July 2, 2006 to June 1, 2007. Upon receiving the first set of applications, the SBA, in consultation with the Florida Office of Insurance Regulation (OIR), reviewed applications, focusing on the financial condition of the insurer and the insurer's business plan. Applications received during each successive timeframe were reviewed only if funds were still available to loan. If more funds were applied for than available, the law allowed for prioritization by the SBA. But as it worked out, prioritization was unnecessary. The funds requested matched the funds available as some insurers adjusted their request in order to help maximize the benefits of the program. The SBA received a total of 20 applications from insurers requesting approximately \$356 million in Surplus Note proceeds. As illustrated in Table 1 below, a total of \$247.5 million was loaned out to 13 insurers. Each insurer submitting an application by July 1, 2006 was required to make a contribution of new capital to its surplus at least equal to the amount of the Surplus Note. Those insurers applying after July 1, 2006 were each required to make a

contribution of new capital to their surplus that was at least twice the amount of the Surplus Note. New capital contributed by each insurer was verified via bank confirmation before Surplus Note proceeds were distributed. The Surplus Notes issued, combined with the total amount of new capital contributed by the companies (\$296 million), created \$543.5 million in new unencumbered capital, allowing insurers to write additional residential property insurance coverage.

**TABLE 1**

| <u>Companies Receiving a Surplus Note</u>   | <u>Date of Surplus Note</u> | <u>Amount of Surplus Note</u> | <u>Amount Contributed by Insurer</u> | <u>Total Amount of New Capital</u> |
|---|-----------------------------|-------------------------------|--------------------------------------|------------------------------------|
| American Capital Assurance Corp             | 11/21/06                    | \$25,000,000                  | \$25,000,000                         | \$50,000,000                       |
| American Integrity Insurance Co. of Florida | 06/27/07                    | \$7,000,000                   | \$7,000,000                          | \$14,000,000                       |
| Cypress Property and Casualty               | 02/02/07                    | \$20,500,000                  | \$20,500,000                         | \$41,000,000                       |
| First Home Insurance Company*               | 06/27/07                    | \$14,500,000                  | \$29,000,000                         | \$43,500,000                       |
| Florida Peninsula Insurance Co.             | 01/03/07                    | \$25,000,000                  | \$25,000,000                         | \$50,000,000                       |
| Modern USA                                  | 06/28/07                    | \$7,000,000                   | \$7,000,000                          | \$14,000,000                       |
| Olympus Insurance Co.*                      | 06/28/07                    | \$16,500,000                  | \$33,500,000                         | \$50,000,000                       |
| Privilege Underwriters Reciprocal Exchange* | 06/13/07                    | \$17,000,000                  | \$34,000,000                         | \$51,000,000                       |
| Royal Palm Insurance Co.                    | 12/20/06                    | \$25,000,000                  | \$25,000,000                         | \$50,000,000                       |
| Southern Fidelity Insurance Co.             | 09/12/06                    | \$25,000,000                  | \$25,000,000                         | \$50,000,000                       |
| St. Johns Insurance Co.                     | 07/31/06                    | \$20,000,000                  | \$20,000,000                         | \$40,000,000                       |
| United Property and Casualty                | 09/22/06                    | \$20,000,000                  | \$20,000,000                         | \$40,000,000                       |
| Universal Property and Casualty             | 11/09/06                    | <u>\$25,000,000</u>           | <u>\$25,000,000</u>                  | <u>\$50,000,000</u>                |
|   |                             | \$247,500,000                 | \$296,000,000                        | \$543,500,000                      |

\*Companies applying after 07/01/06

### **Terms of Surplus Notes**

(Note: All information is as of January 15, 2011)

According to s. 215.5595(2)(f), F.S., each Insurer’s “...surplus note must be repayable to the state with a term of 20 years. The surplus note shall accrue interest on the unpaid principal balance at a rate equivalent to the 10-year U.S. Treasury Bond Rate, require the payment of only interest during the first three years, and include such other terms as approved by the Board. The Board may charge late fees up to five percent for late payments or other late remittances. Payment of principal, interest, or late fees by the insurer on the surplus note must be approved by the Commissioner of Insurance, who shall approve such payment unless the Commissioner determines that such payment will substantially impair the financial condition of the insurer.”

#### ***Principal***

Principal payments are made in equal quarterly installments, beginning in year three of the loan(s), with due dates coinciding with interest payment dates (i.e. January 1, April 1, July 1, and October 1). Although s. 215.5595(2)(f), F.S requires the payment of only interest during the first three years, principal payments can be made during this time frame at the option of the insurer (provided the payments are approved by the Insurance Commissioner). All of the insurers with an outstanding Surplus Note with the State have reached the three year mark and

have begun making required principal payments. In 2009, First Home Insurance Company and Olympus Insurance Company made voluntary principal payments of \$14.5 million and \$16.5 million, respectively, to pay off their Surplus Notes in full. In 2010, Cypress Property and Casualty Insurance Company made an additional principal payment of \$12.5 million to partially pay down its Note.

The outstanding principal balance at 01/15/11 is \$188.7 million. Table 2 below summarizes principal payments received each quarter to date.

**TABLE 2**

| Payment Date | No of Companies | Required Principal | Voluntary Principal Paid | Total Principal Pmts |
|--------------|-----------------|--------------------|--------------------------|----------------------|
| 10/01/2009   | 3               | 955,882.36         | 14,500,000.00            | \$ 15,455,882.36     |
| 01/01/2010   | 7               | 2,426,470.60       | 16,500,000.00            | \$ 18,926,470.60     |
| 04/01/2010   | 8               | 2,727,941.19       | 12,500,000.00            | \$ 15,227,941.19     |
| 07/01/2010   | 11              | 3,183,823.55       | -                        | \$ 3,183,823.55      |
| 10/01/2010   | 11              | 3,183,823.55       | -                        | \$ 3,183,823.55      |
| 01/01/2011   | 10*             | 2,816,176.49       | -                        | \$ 2,816,176.49      |

\*Royal Palm Insurance Company's principal payment due on 01/01/2011 was not approved by OIR, in accordance with s. 215.5595(2)(f), F.S.

Principal payments not approved by OIR are reamortized over the remaining life of the Surplus Note.

***Interest***

The interest rate on the Surplus Notes is adjusted quarterly for the term of the Surplus Note based on the 10-year Constant Maturity Treasury rate. The interest rate is determined two business days prior to the payment date in order to set the rate for the following quarter. Additional interest may be charged to insurers failing to meet the Minimum Writing Ratio and/or the Minimum Required Surplus (further explained later). Table 3 below shows interest rates and total interest billed by quarter.

**TABLE 3**

| <u>For Quarter<br/>Ending</u> | <u>Interest<br/>Rate</u> | <u>Total Interest<br/>Paid</u> |
|-------------------------------|--------------------------|--------------------------------|
| 09/30/2006                    | 5.22%                    | 274,775.00                     |
| 12/31/2006                    | 4.63%                    | 1,109,913.87                   |
| 03/31/2007                    | 4.70%                    | 2,087,452.78                   |
| 06/30/2007                    | 4.64%                    | 2,235,320.00                   |
| 09/30/2007                    | 5.12% *                  | 3,541,872.21                   |
| 12/31/2007                    | 4.58% *                  | 3,503,794.43                   |
| 03/31/2008                    | 4.11% *                  | 4,067,131.27                   |
| 06/30/2008                    | 3.47% *                  | 3,899,918.74                   |
| 09/30/2008                    | 3.99% *                  | 4,016,119.46                   |
| 12/31/2008                    | 3.61% *                  | 2,338,908.34                   |
| 03/31/2009                    | 2.11% *                  | 1,719,937.50                   |
| 06/30/2009                    | 2.73% *                  | 2,975,004.84                   |
| 09/30/2009                    | 3.51% *                  | 3,772,575.00                   |
| 12/31/2009                    | 3.31% *                  | 2,786,844.40                   |
| 03/31/2010                    | 3.80% *                  | 2,817,522.04                   |
| 06/30/2010                    | 3.88% *                  | 3,014,522.55                   |
| 09/30/2010                    | 2.97% *                  | 2,312,939.42                   |
| 12/31/2010                    | 2.52% *                  | <u>2,324,126.32</u>            |
|                               |                          | \$ 48,798,678.17               |

\*Additional penalty interest charged to some insurers for not meeting the Minimum Writing Ratio and/or the Minimum Required Surplus.

As Table 3 indicates, total interest paid since inception of the program is \$48,798,678.17. Principal and interest payments received are invested in the SBA's Commingled Asset Management Program Money Market account (CAMPMM) until transferred to General Revenue.

***Late fees***

Florida Statute 215.5595(2)(f)1 gives the SBA the authority to charge up to five percent for late payments or other late remittances. The payment due on January 1, 2010 from Royal Palm Insurance Company was received 13 days late. A late fee of \$18,382.35 was billed on the next invoice and remitted with the payment due on April 1, 2010. Another payment due on January 1, 2011 from Royal Palm Insurance Company was received 14 days late. A late fee for that late payment will be billed on the next invoice (payment due on April 1, 2011).

**Compliance**

Provisions of the Surplus Note and the Statute require each insurer to 1) meet minimum writing ratios, 2) maintain a minimum required surplus, and 3) maintain a level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss, as

further detailed in the following sections. In order to monitor compliance with these requirements, the Surplus Note requires each company submit a Quarterly Written Premium Report (Form SBA 15-3) to the Office of Insurance Regulation (OIR) and the SBA. Failure to submit the Quarterly Written Premium Report is considered a condition of default on the Surplus Note.

If an insurer is in default with the provisions of the Surplus Note, the consequences include:

- Increasing the interest rate
- Accelerating the repayment of principal and interest
- Shortening the term of the Note
- Calling the Note and demanding full payment

Currently, no insurer with an outstanding Surplus Note is in default with the provisions of the Surplus Note.

### ***1) Writing Ratio***

The statute, as originally signed into law, required as a condition of the Surplus Note that the insurer commit for the life of the Note to a Minimum Writing Ratio of net written premium to surplus of at least 2:1 (except for insurers writing residential property insurance covering only manufactured housing; American Integrity Insurance Company of Florida and Modern USA Insurance Company falling under that criteria). For example, the insurer would need to write \$2 in premiums for every \$1 of surplus. In order to monitor compliance with this requirement, a section of the Quarterly Written Premium Report (submitted by insurers quarterly) requires insurers to provide information on their direct premiums written, assumed premiums written, and ceded premiums. Each insurer's writing ratio is determined by OIR and certified quarterly to the Board.

The Surplus Note recognized that due to an insurer's financial situation, the insurer might not be able to immediately achieve the 2:1 ratio without causing financial stress. As long as an insurer was in the process of aggressively implementing its business plan, a reasonable delay in reaching the 2:1 ratio was considered acceptable. For each insurer, language was incorporated in the Note to address this situation and provide the proper incentive to meet the goals of the Legislature. If the insurer did not meet the time frame required by the Note, the Board and the insurer agreed to additional interest charges and/or repayment of a portion of the Note. Additional interest charges are 25 basis points or 450 basis points, depending on the degree the insurer is out of compliance. Several insurers were not able to meet the required minimum writing ratio by the agreed upon date and have paid additional interest charges. The Compliance Report indicates which companies were required to pay additional interest charges as a result of failing to meet the writing ratio requirements. No Insurers have been required to repay a portion of the Surplus Note due to writing ratios.

During the 2008 legislative session, CS/CS/SB 2860 was passed and consequently signed into law by the Governor. Section (2) of the bill relates to the Insurance Capital Build-Up Incentive Program (s. 215.5595, F.S.). The law relaxed the writing ratio requirements somewhat (s. 215.5595(2)(d), F.S.), and allowed for renegotiation of the Surplus Notes (s. 215.5595(10), F.S) for those insurers with existing Surplus Notes with the SBA. As a result,

11 Surplus Notes were renegotiated to incorporate the new time frames with the revised ratios. The law now allows for the meeting of either a net or gross writing ratio. The requirements phased in over three calendar years. The phase in for the net writing ratio was 1:1 for the first year (2008), 1.5:1 for the second year, and 2:1 for the third year and beyond. The gross writing ratio phased in over the three years as 3:1, 4.5:1, and 6:1.

The Compliance Report, showing each insurer's writing ratio(s) and compliance, as well as compliance with Minimum Required Surplus and PML requirements, is prepared each quarter. The most recent Compliance Report is provided at the end of this report and is available on the Insurance Capital Build-Up Program website at <http://www.sbafla.com/fsb/Home/InsuranceCapitalBuildUpIncentiveProgram/tabid/975/Default.aspx>.

## **2) *Minimum Required Surplus***

As a condition of the Surplus Note, each insurer must maintain a minimum surplus which includes the Surplus Note proceeds and new capital equal to \$50 million (\$14 million for insurers writing only manufactured housing policies). In order to monitor compliance with this requirement, a section of the Quarterly Written Premium Report (submitted by insurers quarterly) requires insurers to provide information on their Total Admitted Assets, Liabilities, and Capital and Surplus. Insurers not meeting the Minimum Required Surplus for any quarter must provide a detailed explanation showing how the surplus was calculated and why it is below the required amount. If the insurer fails to meet the Minimum Required Surplus, the insurer is considered to be in default on the loan except for the following circumstances:

- situations involving the payment of losses resulting from a catastrophic event or a series of events resulting in catastrophic losses
- situations where Minimum Required Surplus is reduced as a result of the accounting treatment for deferred acquisition costs
- situations where Minimum Required Surplus is reduced as a result of the repayment of principal on the Surplus Note

In 2009, there were two insurers (Olympus Insurance Company and First Home Insurance Company) whose surplus, after adjusting for deferred acquisition costs and catastrophe losses, fell below the Minimum Required Surplus of \$50 million for one or more quarters. Additional penalties were assessed accordingly. Both of these companies have paid off their Surplus Notes with the State. Additional penalties in the amount of \$78,750 (450 basis points) were paid by Modern Insurance Company on April 1, 2010 for not meeting the Minimum Required Surplus the prior quarter. Additional penalties in the amount of \$217,463.24 (450 basis points) were paid by St John's Insurance Company on July 1, 2010 for not meeting the Minimum Required Surplus the prior quarter. Both Modern and St John's met the Minimum Required Surplus requirement as of the last reporting period of 2010, therefore, there are currently no companies with an outstanding Surplus Note in default with the Minimum Required Surplus provision of the Surplus Note.

### **3) 1-in-100 Year Probable Maximum Loss**

The 2008 Legislature provided for an additional condition of the Surplus Note requiring the insurer to maintain a level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss, as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology as certified by the OIR annually. Failure to do so results in the insurer defaulting on the Surplus Note.

OIR certified on August 6, 2009 that each insurer holding a Surplus Note with the State of Florida had maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2009-2010.

On September 22, 2010, OIR certified the levels of surplus and reinsurance for the 2010-2011 year. Each of the companies with an outstanding Note with the State maintained a level of surplus and reinsurance to cover its 1-in-100 PML requirement for 2010-2011.

## **Funds Transferred to General Revenue**

During the 2009 legislative special session, SB 28A was passed by the Legislature and consequently signed into law by the Governor. The bill added language to the Insurance Capital Build-Up Incentive Program (s. 215.5595, F.S.) requiring all future principal, interest, and late fees received from insurers be transferred to the State of Florida's General Revenue Fund within 30 days of receipt. Also during the 2009 Special Session, Section 16 of the Appropriations Bill directed the SBA to transfer to General Revenue all unrestricted moneys received as repayments of principal, interest, and late fees received from insurers to date, as well as accumulated investment earnings. As such, \$26,713,695 from repayment of interest, and earnings thereon, was transferred to General Revenue in February 2009. The remainder of the moneys (with a cost of \$1,075,316 and market value of \$672,253 at 12/31/08) had been frozen from investor withdrawals due to that portfolio's investment in distressed illiquid securities. The funds are transferred to General Revenue quarterly as the SBA releases restrictions on the funds.

Also transferred to General Revenue in February 2009 was the investment income earned on the original appropriation of \$250 million (including the interest earned on the \$2.5 million set aside in the expense account). Before loans were made to insurers, the appropriated funds earned approximately \$8.8 million. \$8,368,141 was transferred in February 2009. The remainder of the moneys (with a cost of \$530,494 and a market value of \$331,648 at 12/31/08) are transferred to General Revenue quarterly as the SBA releases restrictions on the funds.

To comply with the new language added to the Statute during the 2009 legislative special session, all available funds are transferred on the 25<sup>th</sup> of each January, April, July, and October. If the 25<sup>th</sup> falls on a weekend or holiday, the funds are transferred the next business day. A history of the funds transferred to General Revenue is provided in Table 4 below.



**TABLE 4**

| <u>Transfer Date</u> | <u>Interest Payments</u> | <u>Principal Payments</u> | <u>Late Fees</u> | <u>Investment Earnings</u> | <u>Release of Previously Restricted Funds*</u> | <u>Total Transferred to General Revenue</u> |
|----------------------|--------------------------|---------------------------|------------------|----------------------------|--|---|
| 02/09/2009           | 27,075,206.10            |                           |                  | 9,594,010.11               |  | 35,081,836.30 *                             |
| 04/27/2009           | 1,719,937.50             |                           |                  | 9,151.54                   | 35,307.17                                      | 1,764,396.21                                |
| 07/27/2009           | 2,787,317.34             |                           |                  | 4,266.24                   | 66,181.48                                      | 2,857,765.06                                |
| 10/26/2009           | 3,960,262.50             | 15,455,882.36             |                  | 4,570.49                   | 72,501.53                                      | 19,493,216.88                               |
| 01/25/2010           | 2,786,844.40             | 18,926,470.60             |                  | 11,873.91                  | 57,256.13                                      | 21,782,445.04                               |
| 04/27/2010           | 2,817,522.04             | 15,227,941.19             | 18,382.35        | 5,617.02                   | 52,648.58                                      | 18,122,111.18                               |
| 07/26/2010           | 3,014,522.55             | 3,183,823.55              |                  | 4,744.78                   | 76,900.06                                      | 6,279,990.94                                |
| 10/25/2010           | 2,312,939.42             | 3,183,823.55              |                  | 3,861.94                   | 46,177.54                                      | 5,546,802.45                                |
| 01/25/2011           | <u>2,324,126.32</u>      | <u>2,816,176.49</u>       |                  | <u>2,985.49</u>            | <u>35,035.33</u>                               | <u>5,178,323.63</u>                         |
|                      | \$ 48,798,678.17         | \$ 58,794,117.74          | \$ 18,382.35     | \$ 9,641,081.52            | \$ 442,007.82                                  | \$ 116,106,887.69                           |

\*\$1,587,379.91 of funds were restricted, and thus, unavailable for transfer in February 2009. Funds are transferred as the SBA releases restrictions.

**Insurance Capital Build-Up Incentive Program  
Summary Report on Compliance with Writing Ratio (WR), Minimum Required Surplus (MRS), and Required PML Coverage**

| Required Writing Ratio Date | Southern Fidelity Ins Co |        | United P&C Ins Co |        | Universal P&C Ins Co |        | American Capital Assur Corp |        | Royal Palm Ins Co |                         | Florida Peninsula Ins Co |                         | Cypress P&C Ins Co |          | Privilege Underwriters Reciprocal Exchange |          | American Integrity Ins Co |          | First Home Ins Co |          | Modern USA Ins Co |          | Olympus Ins Co |          |
|-----------------------------|--------------------------|--------|-------------------|--------|----------------------|--------|-----------------------------|--------|-------------------|-------------------------|--------------------------|-------------------------|--------------------|----------|--|----------|---------------------------|----------|-------------------|----------|-------------------|----------|----------------|----------|
|                             | 11/15/07                 | 8/1/07 | 12/31/07          | 6/1/07 | 3/31/08              | 6/1/07 | 7/1/07                      | 1/1/08 | 12/31/08          | Provided by Statute (1) | 12/31/08                 | Provided by Statute (1) | 12/31/07           | 12/31/07 | 12/31/07                                   | 12/31/07 | 12/31/07                  | 12/31/07 | 12/31/07          | 12/31/07 | 12/31/07          | 12/31/07 | 12/31/07       | 12/31/07 |
| <b>(Quarter Ended)</b>      |                          |        |                   |        |                      |        |                             |        |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 09/30/2006                  | 1.08                     | 0.21   | 0.72              |        |                      |        |                             |        |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | n/a                      | n/a    | n/a               |        |                      |        |                             |        |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 12/31/2006                  | 1.04                     | 0.32   | 1.34              | 2.05   | 0.10                 | 0.65   |                             |        |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | n/a                      | n/a    | n/a               | n/a    | n/a                  | n/a    |                             |        |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 03/31/2007                  | 1.26                     | 1.87   | 2.34              | 1.87   | 0.76                 | 1.77   | 0.80                        | 0.90   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | n/a                      | n/a    | n/a               | n/a    | n/a                  | n/a    | n/a                         | n/a    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 06/30/2007                  | 1.00                     | 1.60   | 0.10              | 1.69   | 0.79                 | 0.56   | 0.10                        | 1.48   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | n/a                      | n/a    | n/a               | No     | n/a                  | No     | n/a                         | n/a    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 09/30/2007                  | 1.12                     | 1.29   | 1.47              | 1.83   | 0.64                 | 1.69   | 1.18                        | 1.15   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | n/a                      | No     | n/a               | No     | n/a                  | No     | No                          | n/a    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 12/31/2007                  | 1.18                     | 1.26   | 1.32              | 1.39   | 0.76                 | 2.13   | 1.37                        | 1.12   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | No                       | No     | No                | No     | n/a                  | Yes    | No                          | n/a    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 03/31/2008                  | 1.10                     | 1.01   | 1.04              | 1.26   | 0.82                 | 2.02   | 2.05                        | 0.90   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | No                       | No     | No                | No     | No                   | Yes    | Yes                         | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 06/30/2008                  | 0.95                     | 0.90   | 1.49              | 1.66   | 0.85                 | 2.52   | 1.76                        | 0.54   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | No                       | No     | No                | No     | No                   | Yes    | No                          | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 09/30/2008 - Gross*         | 6.85                     | 1.70   | 3.17              | 10.21  | 1.18                 | 3.82   | 3.47                        | 1.33   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 09/30/2008 - Net            | 1.09                     | 0.99   | 1.82              | 2.95   | 0.88                 | 2.16   | 1.82                        | 0.61   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | Yes                      | No     | Yes               | Yes    | Yes                  | Yes    | Yes                         | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 12/31/2008 - Gross*         | 6.93                     | 1.74   | 3.45              | 10.15  | 1.32                 | 3.77   | 3.82                        | 1.25   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 12/31/2008 - Net            | 0.78                     | 1.06   | 1.99              | 2.94   | 0.89                 | 2.10   | 2.42                        | 0.62   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | Yes                      | Yes    | Yes               | Yes    | No                   | Yes    | Yes                         | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets MRS                   | Yes                      | Yes    | Yes               | Yes    | Yes                  | Yes    | Yes                         | Yes    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 03/31/2009 - Gross**        | 6.95                     | 1.76   | 3.62              | 10.51  | 1.15                 | 3.70   | 3.60                        | 1.29   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 03/31/2009 - Net            | 0.46                     | 1.07   | 2.17              | 3.119  | 0.70                 | 2.03   | 2.24                        | 0.71   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | Yes                      | No     | Yes               | Yes    | No                   | Yes    | Yes                         | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets MRS                   | Yes                      | Yes    | Yes               | Yes    | Yes                  | Yes    | Yes                         | Yes    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 06/30/2009 - Gross**        | 6.77                     | 1.77   | 4.02              | 10.76  | 1.10                 | 3.46   | 3.57                        | 1.33   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 06/30/2009 - Net            | 0.26                     | 0.94   | 1.73              | 2.59   | 0.62                 | 1.90   | 1.95                        | 0.78   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | Yes                      | No     | Yes               | Yes    | No                   | Yes    | Yes                         | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets MRS                   | Yes                      | Yes    | Yes               | Yes    | Yes                  | Yes    | Yes                         | Yes    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 09/30/2009 - Gross**        | 6.78                     | 1.86   | 4.09              | 10.9   | 0.98                 | 3.48   | 3.87                        | 1.36   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 09/30/2009 - Net            | 0.03                     | 1.03   | 1.75              | 2.41   | 0.16                 | 1.91   | 2.25                        | 0.80   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | Yes                      | No     | Yes               | Yes    | No                   | Yes    | Yes                         | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets MRS                   | Yes                      | Yes    | Yes               | Yes    | Yes                  | Yes    | Yes                         | Yes    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 12/31/2009 - Gross**        | 6.83                     | 1.94   | 3.93              | 11.13  | 1.20                 | 3.45   | 3.82                        | 1.40   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| 12/31/2009 - Net            | -0.12                    | 1.02   | 1.57              | 2.21   | 0.52                 | 1.84   | 2.17                        | 0.79   |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets WR                    | Yes                      | No     | Yes               | Yes    | No                   | Yes    | Yes                         | No     |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |
| Meets MRS                   | Yes                      | Yes    | Yes               | Yes    | Yes                  | Yes    | Yes                         | Yes    |                   |                         |                          |                         |                    |          |  |          |                           |          |                   |          |                   |          |                |          |

Failure to meet minimum writing ratio results in penalty interest of 25 bps or 450 bps, according to the terms set forth in the Note

company assessed 25 bps penalty  
company assessed 450 bps penalty

company assessed penalty for not meeting Minimum Required Surplus (see footnotes)

| Required Writing Ratio Date | Southern Fidelity Ins Co |          | United P&C Ins Co |         | Universal P&C Ins Co |         | American Capital Assur Corp |         | Royal Palm Ins Co |         | Florida Peninsula Ins Co |        | Cypress P&C Ins Co |          | Privilege Underwriters Reciprocal Exchange |          | American Integrity Ins Co |          | First Home Ins Co |          | Modern USA Ins Co |          | Olympus Ins Co |          |
|-----------------------------|--------------------------|----------|-------------------|---------|----------------------|---------|-----------------------------|---------|-------------------|---------|--------------------------|--------|--------------------|----------|--|----------|---------------------------|----------|-------------------|----------|-------------------|----------|----------------|----------|
|                             | 8/1/07                   | 12/31/07 | 6/1/07            | 3/31/08 | 6/1/07               | 3/31/08 | 6/1/07                      | 3/31/08 | 6/1/07            | 3/31/08 | 7/1/07                   | 1/1/08 | 12/31/08           | 12/31/08 | 12/31/08                                   | 12/31/08 | 12/31/08                  | 12/31/08 | 12/31/08          | 12/31/08 | 12/31/08          | 12/31/08 | 12/31/08       | 12/31/08 |
| 11/15/07                    | 6.81                     | 2.13     | 3.96              | 11.47   | 1.29                 | 3.42    | 3.74                        | 1.44    | 0.50              | 6.90    | N/A                      | 2.07   | N/A                | 2.07     | N/A  | 2.07     | N/A                       | 2.07     | N/A               | 2.07     | N/A               | 2.07     | N/A            | N/A      |
| 03/31/2010 - Gross***       | -0.28                    | 1.20     | 1.55              | 1.93    | 0.69                 | 1.80    | 2.06                        | 0.83    | 0.07              | 3.26    | N/A                      | 1.20   | N/A                | 1.20     | N/A  | 1.20     | N/A                       | 1.20     | N/A               | 1.20     | N/A               | 1.20     | N/A            | N/A      |
| 03/31/2010 - Net            | Yes                      | No       | No                | Yes     | No                   | No      | Yes                         | No      | No                | Yes     | Yes                      | Yes    | No                 | No       | Yes  | Yes      | Yes                       | Yes      | Yes               | Yes      | Yes               | Yes      | Yes            | N/A      |
| Meets WR                    | Yes                      | Yes      | Yes               | Yes     | Yes                  | Yes     | Yes                         | Yes     | Yes               | Yes     | Yes                      | Yes    | Yes                | Yes      | Yes  | Yes      | Yes                       | Yes      | Yes               | Yes      | Yes               | Yes      | Yes            | N/A      |
| Meets MRS                   | No                       | Yes      | Yes               | Yes     | Yes                  | Yes     | Yes                         | Yes     | Yes               | Yes     | Yes                      | Yes    | Yes                | Yes      | Yes  | Yes      | Yes                       | Yes      | Yes               | Yes      | Yes               | Yes      | Yes            | N/A      |
| 06/30/2010 - Gross***       | 6.68                     | 2.14     | 3.97              | 12.56   | 1.22                 | 3.29    | 3.78                        | 2.18    | 0.55              | 7.86    | N/A                      | 2.16   | N/A                | 2.16     | N/A  | 2.16     | N/A                       | 2.16     | N/A               | 2.16     | N/A               | 2.16     | N/A            | N/A      |
| 06/30/2010 - Net            | -0.55                    | 1.04     | 1.52              | 2.85    | 0.28                 | 3.25    | 2.34                        | 1.33    | 0.09              | 4.32    | N/A                      | 1.20   | N/A                | 1.20     | N/A  | 1.20     | N/A                       | 1.20     | N/A               | 1.20     | N/A               | 1.20     | N/A            | N/A      |
| Meets WR                    | Yes                      | No       | No                | Yes     | No                   | Yes     | Yes                         | No      | No                | Yes     | Yes                      | Yes    | No                 | No       | Yes  | Yes      | Yes                       | Yes      | Yes               | Yes      | Yes               | Yes      | Yes            | N/A      |
| Meets MRS                   | Yes                      | Yes      | Yes               | Yes     | Yes                  | Yes     | Yes                         | Yes     | Yes               | Yes     | Yes                      | Yes    | Yes                | Yes      | Yes  | Yes      | Yes                       | Yes      | Yes               | Yes      | Yes               | Yes      | Yes            | N/A      |
| 09/30/2010 - Gross***       | 6.64                     | 2.18     | 3.95              | 12.98   | 1.40                 | 3.40    | 3.68                        | 2.23    | 0.58              | 7.77    | N/A                      | 2.18   | N/A                | 2.18     | N/A  | 2.18     | N/A                       | 2.18     | N/A               | 2.18     | N/A               | 2.18     | N/A            | N/A      |
| 09/30/2010 - Net            | -0.34                    | 1.08     | 1.59              | 3.01    | 0.90                 | 1.13    | 2.27                        | 1.35    | 0.08              | 3.81    | N/A                      | 1.19   | N/A                | 1.19     | N/A  | 1.19     | N/A                       | 1.19     | N/A               | 1.19     | N/A               | 1.19     | N/A            | N/A      |
| Meets WR                    | Yes                      | No       | No                | Yes     | No                   | No      | Yes                         | No      | No                | Yes     | Yes                      | Yes    | No                 | No       | Yes  | Yes      | Yes                       | Yes      | Yes               | Yes      | Yes               | Yes      | Yes            | N/A      |
| Meets MRS                   | Yes                      | Yes      | Yes               | Yes     | Yes                  | Yes     | Yes                         | Yes     | Yes               | Yes     | Yes                      | Yes    | Yes                | Yes      | Yes  | Yes      | Yes                       | Yes      | Yes               | Yes      | Yes               | Yes      | Yes            | N/A      |

**Notes**

- (1) - For newly formed Insurers writing only manufactured housing policies, the ratio provisions are provided in Section 624.4095 F.S.
- n/a - Minimum Writing Ratio is not yet required to be met based on the required writing ratio date agreed upon at the execution of the Surplus Note.
- MRS - Minimum Required Surplus to be maintained by the Note is \$50 million (\$14 million for insurers writing only manufactured housing policies). Additional penalty paid by Olympus was 425 bps for not meeting at 12/31/08, and 450 bps for not meeting at 03/31/09 & 06/30/09. Subsequently, the Company requested and received approval to pay the Surplus Note in full in December 2009. Therefore, no penalty was assessed for not meeting MRS at 09/30/09. First Home did not pay a penalty for 03/31/09, as the takeout bonus due from Citizens Property Insurance was expected to cure the deficiency in MRS. Subsequently, the Company requested and received approval to pay the Surplus Note in full on October 1, 2009. Therefore, no penalty was assessed for not meeting MRS at 06/30/09. Additional penalty paid by Modern was 450 bps for not meeting at 12/31/09.
- \*Beginning with the 09/30/08 quarter, companies will meet the minimum writing ratio by meeting a net ratio of 1:1, OR a gross ratio of 3:1 for the remainder of 2008
- \*\*For each quarter in 2009, companies will meet the minimum writing ratio by meeting a net ratio of 1.5:1, OR a gross ratio of 4.5:1
- \*\*For each quarter in 2010, companies will meet the minimum writing ratio by meeting a net ratio of 2:1, OR a gross ratio of 6:1
- NOTE: Statute requires each insurer holding a Surplus Note maintain a "level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss, as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology, which shall be determined by the Office of Insurance Regulation and certified annually to the Board."
- OIR certified on 08/06/09 that each of the 13 companies has maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2009-2010.
- OIR certified levels of reinsurance for all companies on 09/22/10. Each company maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2010-2011.