

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, 2016

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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 1st 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 (Rule 19ER06-3, F.A.C.) on May 31, 2006, to implement the Program. The emergency rule was subsequently incorporated into Rule 19-15.001, F.A.C., which was later repealed on October 2, 2011, as the rule was no longer necessary. The 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 time frame were reviewed only if funds were still available to loan. If more funds were applied for than available, the statute 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 on page 3, a total of \$247.5 million was loaned to 13 insurers. Each insurer submitting an application by July 1, 2006 was required by law 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 by law 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.

Terms of Surplus Notes

(Note: All information is as of January 26, 2016)

The repayment terms of the Surplus Notes are specified in s. 215.5595(2)(f)1., F.S., as follows:

The 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 only of interest during the first 3 years, and include such other terms as approved by the board. The board may charge late fees up to 5 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. If such a determination is made, the commissioner shall approve such payment that will not substantially impair the financial condition of the insurer.

Under s. 215.5595(11), F.S., enacted in 2011 as part of Chapter 2011-39, Laws of Florida, certain terms of Surplus Notes issued prior to January 1, 2011, were subject to renegotiation, as follows:

If the insurer agrees to accelerate the payment period of the note by at least 5 years, the board must agree to exempt the insurer from the premium-to-surplus ratios required under paragraph (2)(d). If the insurer agrees to an acceleration of the payment period for less than 5 years, the board may, after consultation with the Office of Insurance Regulation, agree to an appropriate revision of the premium-to-surplus ratios required under paragraph (2)(d) for the remaining term of the note if the revised ratios are not lower than a minimum writing ratio of net premium to surplus of at least 1 to 1 and, alternatively, a minimum writing ratio of gross premium to surplus of at least 3 to 1.

Six insurers (American Capital Assurance Corporation, Cypress Property & Casualty Insurance Company, Florida Peninsula Insurance Company, Privilege Underwriters Reciprocal Exchange, Southern Fidelity Insurance Company, and Tower Hill Signature Insurance Company) renegotiated their Surplus Notes under this provision and entered into addenda reducing the term of the Surplus Notes by five years.

TABLE 1

Companies Receiving a Surplus Note	Date of Surplus Note	Amount of Surplus Note	Amount Contributed by Insurer	Total Amount of New Capital	Term Ends
American Capital Assurance Corporation	11/21/06	\$25,000,000	\$25,000,000	\$50,000,000	9/30/2021
American Integrity Insurance Company of Florida	06/27/07	\$7,000,000	\$7,000,000	\$14,000,000	3/31/2027
Cypress Property & Casualty Insurance Company	02/02/07	\$20,500,000	\$20,500,000	\$41,000,000	12/31/2021
First Home Insurance Company*	06/27/07	\$14,500,000	\$29,000,000	\$43,500,000	Paid off
Florida Peninsula Insurance Company	01/03/07	\$25,000,000	\$25,000,000	\$50,000,000	9/30/2021
Modern USA Insurance Company	06/28/07	\$7,000,000	\$7,000,000	\$14,000,000	3/31/2027
Olympus Insurance Company*	06/28/07	\$16,500,000	\$33,500,000	\$50,000,000	Paid off
Privilege Underwriters Reciprocal Exchange*	06/13/07	\$17,000,000	\$34,000,000	\$51,000,000	3/31/2022
Royal Palm Insurance Company **	12/20/06	\$25,000,000	\$25,000,000	\$50,000,000	9/30/2021
Southern Fidelity Insurance Company	09/12/06	\$25,000,000	\$25,000,000	\$50,000,000	6/30/2021
St. Johns Insurance Company	07/31/06	\$20,000,000	\$20,000,000	\$40,000,000	6/30/2026
United Property & Casualty Insurance Company	09/22/06	\$20,000,000	\$20,000,000	\$40,000,000	6/30/2026
Universal Property & Casualty Insurance Company	11/09/06	<u>\$25,000,000</u>	<u>\$25,000,000</u>	<u>\$50,000,000</u>	<u>9/30/2026</u>
		\$247,500,000	\$296,000,000	\$543,500,000	

*Companies applying after July 1, 2006

**Now known as Tower Hill Signature Insurance Company

Principal

Principal payments are made in equal quarterly installments, beginning in year three of the loan, 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 interest only 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 Commissioner of Insurance. All of the insurers with outstanding Surplus Notes 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 Surplus Note.

The outstanding principal balance at January 26, 2016 is \$113.6 million. Table 2 summarizes principal payments received each quarter to date.

TABLE 2

Payment Date	No of Companies	Required Principal	Voluntary Principal Paid	Total Principal Payments
10/1/2009	3	\$ 955,882.36	\$14,500,000.00	\$15,455,882.36
1/1/2010	7	\$ 2,426,470.60	\$16,500,000.00	\$18,926,470.60
4/1/2010	8	\$ 2,727,941.19	\$12,500,000.00	\$15,227,941.19
7/1/2010	11	\$ 3,183,823.55	-	\$ 3,183,823.55
10/1/2010	11	\$ 3,183,823.55	-	\$ 3,183,823.55
1/1/2011	10*	\$ 2,816,176.49	-	\$ 2,816,176.49
4/1/2011	10*	\$ 2,816,176.49	-	\$ 2,834,176.49**
7/1/2011	10*	\$ 2,816,176.49	-	\$ 2,798,176.49
10/1/2011	10*	\$ 3,295,619.13	-	\$ 3,295,619.13
1/1/2012	10*	\$ 3,479,442.67	-	\$ 3,479,442.67
4/1/2012	11	\$ 3,920,996.21	-	\$ 3,920,996.21
7/1/2012	11	\$ 3,920,996.21	-	\$ 3,920,996.21
10/1/2012	11	\$ 3,920,996.21	-	\$ 3,920,996.21
1/1/2013	11	\$ 3,920,996.21	-	\$ 3,920,996.21
4/1/2013	11	\$ 3,920,996.21	-	\$ 3,920,996.21
7/1/2013	11	\$ 3,920,996.21	-	\$ 3,920,996.21
10/1/2013	11	\$ 3,920,996.21	-	\$ 3,920,996.21
1/1/2014	11	\$ 3,920,996.21	-	\$ 3,920,996.21
4/1/2014	11	\$ 3,920,996.21	-	\$ 3,920,996.21
7/1/2014	11	\$ 3,920,996.21	-	\$ 3,920,996.21
10/1/2014	11	\$ 3,920,996.21	-	\$ 3,920,996.21
1/1/2015	11	\$ 3,920,996.21	-	\$ 3,920,996.21
4/1/2015	11	\$ 3,920,996.21	-	\$ 3,920,996.21
7/1/2015	11	\$ 3,920,996.21	-	\$ 3,920,996.21
10/1/2015	11	\$ 3,920,996.21	-	\$ 3,920,996.21
1/1/2016	11	\$ 3,920,996.21	-	\$ 3,920,996.21
				\$133,937,471.88

*Tower Hill Signature Insurance Company's principal payment due on January 1, 2011 was not approved by OIR, in accordance with s. 215.5595(2)(f), F.S.; and the principal payments due for the subsequent four quarters were deferred by OIR pursuant to an Order issued by OIR on February 7, 2011.

**Cypress Property & Casualty Insurance Company paid inadvertently \$18,000 too much towards principal, so to offset this overpayment, the insurer paid \$18,000 less towards principal in the next quarter.

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

As Table 2 indicates, total principal paid since inception of the program is \$133,937,471.88. Principal and interest payments received are invested in the Local Government Surplus Funds Trust Fund ("Florida PRIME") until transferred to General Revenue.

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 or the minimum required surplus or failing to maintain a level of surplus and reinsurance sufficient to cover in excess of its 1-in-100 year probable maximum loss (further explained later). Table 3 shows interest rates and total interest paid by quarter.

TABLE 3

<u>For Quarter Ending</u>	<u>10-Year Constant Maturity Treasury Rate</u>	<u>Total Interest Paid</u>
9/30/2006	5.22%	274,775.00
12/31/2006	4.63%	1,109,913.87
3/31/2007	4.70%	2,087,452.78
6/30/2007	4.64%	2,235,320.00
9/30/2007	5.12%	3,541,872.21 *
12/31/2007	4.58%	3,503,794.43 *
3/31/2008	4.11%	4,067,131.27 *
6/30/2008	3.47%	3,899,918.74 *
9/30/2008	3.99%	4,016,119.46 *
12/31/2008	3.61%	2,338,908.34 *
3/31/2009	2.11%	1,719,937.50 *
6/30/2009	2.73%	2,975,004.84 *
9/30/2009	3.51%	3,772,575.00 *
12/31/2009	3.31%	2,786,844.40 *
3/31/2010	3.80%	2,817,522.04 *
6/30/2010	3.88%	3,014,522.55 *
9/30/2010	2.97%	2,312,939.42 *
12/31/2010	2.52%	2,324,126.32 *
3/31/2011	3.38%	2,382,211.75 *
6/30/2011	3.47%	2,345,402.69 *
9/30/2011	3.14%	1,487,346.85 *
12/31/2011	1.99%	1,167,947.03 *
3/31/2012	1.91%	746,452.59
6/30/2012	2.18%	836,153.98
9/30/2012	1.60%	657,354.05
12/31/2012	1.66%	1,732,913.11 *
3/31/2013	1.73%	694,657.64
6/30/2013	1.87%	740,681.40
9/30/2013	2.49%	972,142.29
12/31/2013	2.64%	1,004,251.41
3/31/2014	2.99%	1,083,355.47
6/30/2014	2.73%	973,083.07
9/30/2014	2.54%	889,856.72
12/31/2014	2.50%	850,792.43

For Quarter Ending	10-Year Constant Maturity Treasury Rate	Total Interest Paid
3/31/2015	2.20%	710,855.81
6/30/2015	1.96%	620,918.32
9/30/2015	2.33%	722,896.48
12/31/2015	2.05%	615,483.13
		\$70,033,434.39

*Amount includes additional 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 \$70,033,434.39. Principal and interest payments received are invested in Florida PRIME until transferred to General Revenue.

Late Fees

Section 215.5595(2)(f)1., F.S., gives the SBA the authority to charge up to five percent for late payments or other late remittances. For the quarters ending March 31, 2015, June 30, 2015, September 30, 2015, and December 31, 2015, no companies with outstanding Surplus Notes were charged any late fees.

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 (“PML”), 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 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 may include:

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

A 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/Newsroom/InsuranceCapitalBuildUpIncentiveProgram/tabid/975/Default.aspx>.

1) Writing Ratio

The Statute, as originally enacted, required as a condition of the Surplus Note that the insurer commit for the life of the Surplus Note to a minimum writing ratio of net written premium to surplus of at least 2:1 (except for an insurer writing only manufactured housing policies; American Integrity Insurance Company of Florida and Modern USA Insurance Company are the two insurers that meet this exception). 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 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 SBA.

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 Surplus 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 Surplus Note, the SBA and the insurer agreed to additional interest charges and/or repayment of a portion of the Surplus 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.

The statute was amended in 2008 by Chapter 2008-66, Laws of Florida. The amended statute 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, eleven 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.

Currently, all companies with an outstanding Surplus Note are in compliance with the minimum writing ratio provision of the Surplus Note.

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 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

Currently, all companies with an outstanding Surplus Note are in compliance with the minimum required surplus provision of the Surplus Note.

3) 1-in-100 Year Probable Maximum Loss

The 2008 amendment to the statute provided for an additional condition of the Surplus Note as follows:

The insurer must also commit to maintaining 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. If the board determines that the insurer has failed to meet any of the requirements of this paragraph during the term of the surplus note, the board may increase the interest rate, accelerate the repayment of interest and principal, or shorten the term of the surplus note, subject to approval by the Commissioner of Insurance of payments by the insurer of principal and interest as provided in paragraph (f).

On August 26, 2015, OIR certified that each insurer holding a Surplus Note with the State of Florida maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2015-2016.

Funds Transferred to General Revenue

In 2009, the Legislature enacted Chapter 2009-12, Laws of Florida, which added a new subparagraph 215.5595(2)(f)2. This provision requires that all future principal, interest, and late fees received from insurers be transferred to the General Revenue Fund within 30 days after receipt. In addition, a 2009 appropriations act, Chapter 2009-1, Laws of Florida, 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. The sum of \$26,713,695 from repayment of interest, and earnings thereon, was transferred to General Revenue in February 2009. 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 accumulated investment earnings, of which \$8,368,141 was transferred to General Revenue in February 2009. There were funds remaining after the transfers in February 2009 totaling \$1,587,379.91, which had been frozen from investor withdrawals due to the portfolio's investment in distressed illiquid securities. Since that time, funds were transferred to

General Revenue quarterly as the SBA released restrictions on them. In August 2014, the last remaining restrictions were released, and the distressed securities were fully liquidated by early 2015.

To comply with the 2009 amendments to the Statute, all available funds are transferred on the 25th of each January, April, July, and October. If the 25th 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.

TABLE 4

Transfer Date	Interest Payments	Principal Payments	Late Fees	Investment Earnings	Release of Previously Restricted Funds*	Total Transferred to General Revenue
2/9/2009	27,075,206.10			9,594,010.11		35,081,836.30 *
4/27/2009	1,719,937.50			9,151.54	35,307.17	1,764,396.21
7/27/2009	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
1/25/2010	2,786,844.40	18,926,470.60		11,873.91	57,256.13	21,782,445.04
4/27/2010	2,817,522.04	15,227,941.19	18,382.35	5,617.02	52,648.58	18,122,111.18
7/26/2010	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
1/25/2011	2,324,126.32	2,816,176.49		2,985.49	35,035.33	5,178,323.63
4/25/2011	2,382,211.75	2,834,176.49	21,105.88	2,414.51	34,699.60	5,274,608.23
7/25/2011	2,345,402.69	2,798,176.49	28,506.25	2,016.09	34,068.98	5,208,170.50
10/25/2011	1,487,346.85	3,295,619.13		2,415.66	30,632.91	4,816,014.55
1/25/2012	1,167,947.03	3,479,442.67		2,242.70	26,016.13	4,675,648.53
4/25/2012	746,452.59	3,920,996.21		2,413.18	24,555.25	4,694,417.23
7/25/2012	836,153.98	3,920,996.21	7,749.10	5,779.92	35,138.31	4,805,817.52
10/25/2012	657,354.05	3,920,996.21		2,576.11	33,438.57	4,614,364.94
1/25/2013	1,732,913.11	3,920,996.21		970.94	31,105.23	5,685,985.49
4/25/13	694,657.64	3,920,996.21		846.67	242,215.42	4,858,715.94
7/25/13	740,681.40	3,920,996.21		747.23	130,355.34	4,792,780.18
10/25/13	972,142.29	3,920,996.21		572.36	17,057.98	4,910,768.84
1/27/14	1,004,251.41	3,920,996.21		633.95	14,296.02	4,940,177.59
4/25/14	1,083,355.47	3,920,996.21		588.46	10,490.72	5,015,430.86
7/25/14	973,083.07	3,920,996.21		611.18	194,656.99	5,089,347.45
10/24/14	889,856.72	3,920,996.21		578.24	84,390.70	4,895,821.87
1/26/15	850,792.43	3,920,996.21		560.10	0.00	4,772,348.74
4/27/15	710,855.81	3,920,996.21		611.58	25,040.58	4,657,504.18
7/27/15	620,918.32	3,920,996.21		725.69	0.00	4,542,640.22
10/26/15	722,896.48	3,920,996.21		667.13	0.00	4,644,559.82
1/25/16	615,483.13	3,920,996.21		1,020.52	0.00	4,537,499.86

*\$1,587,379.91 of funds were restricted, and thus, unavailable for transfer in February 2009. Since that time, funds were transferred quarterly as the SBA released the restrictions. The remaining fund restrictions were released in August 2014.

Insurance Capital Build-Up Incentive Program

Summary Report on Compliance with Writing Ratio (WR), Minimum Required Surplus (MRS), and Required PML Coverage

	St. Johns Ins Co	Southern Fidelity Ins Co	United P&C Ins Co	Universal P&C Ins Co	American Capital Assur Corp	Tower Hill Signature Ins Co - fka Royal Palm	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
Required Writing Ratio Date	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
(Quarter Ended)													
9/30/2006	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							
3/31/2007	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					
6/30/2007	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					
9/30/2007	1.12	1.29	1.47	1.83	0.64	1.69	1.18	1.15	0.08	2.54	0.20	0.00	0.11
Meets WR	n/a	No	n/a	No	n/a	No	No	n/a	n/a	Yes	n/a	Yes	n/a
12/31/2007	1.18	1.26	1.32	1.39	0.76	2.13	1.37	1.12	0.11	4.94	0.36	0.19	0.58
Meets WR	No	No	No	No	n/a	Yes	No	n/a	n/a	Yes	n/a	Yes	No
3/31/2008	1.10	1.01	1.04	1.26	0.82	2.02	2.05	0.90	0.10	3.06	0.21	0.59	0.78
Meets WR	No	No	No	No	No	Yes	Yes	No	n/a	Yes	n/a	Yes	No
6/30/2008	0.95	0.90	1.49	1.66	0.85	2.52	1.76	0.54	0.14	2.63	0.48	0.88	0.71
Meets WR	No	No	No	No	No	Yes	No	No	n/a	Yes	n/a	Yes	No
09/30/2008 - Gross*	6.85	1.70	3.17	10.21	1.18	3.82	3.47	1.33	0.41	8.32	1.11	1.07	1.10
09/30/2008 - Net	1.09	0.99	1.82	2.95	0.88	2.16	1.82	0.61	0.13	5.81	0.72	0.84	0.69
Meets WR	Yes	No	Yes	Yes	No	Yes	Yes	No	n/a	Yes	n/a	Yes	No
12/31/2008 - Gross*	6.93	1.74	3.45	10.15	1.32	3.77	3.82	1.25	0.43	7.47	0.95	1.20	0.91
12/31/2008 - Net	0.78	1.06	1.99	2.94	0.89	2.10	2.42	0.62	0.07	4.88	0.55	0.88	0.52
Meets WR	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No	Yes	No	Yes	No
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
03/31/2009 - Gross**	6.95	1.76	3.62	10.51	1.15	3.70	3.60	1.29	0.44	7.62	0.98	1.41	1.23
03/31/2009 - Net	0.46	1.07	2.17	3.119	0.70	2.03	2.24	0.71	0.06	5.03	0.58	0.98	0.68
Meets WR	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	Yes	No
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
06/30/2009 - Gross**	6.77	1.77	4.02	10.76	1.10	3.46	3.57	1.33	0.45	7.55	0.97	1.62	1.24
06/30/2009 - Net	0.26	0.94	1.73	2.59	0.62	1.90	1.95	0.78	0.01	4.42	0.32	1.08	0.67
Meets WR	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	Yes	No
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
09/30/2009 - Gross**	6.78	1.86	4.09	10.9	0.98	3.48	3.87	1.36	0.44	7.46	N/A	1.81	1.44
09/30/2009 - Net	0.03	1.03	1.75	2.41	0.16	1.91	2.25	0.80	-0.01	4.34	N/A	1.17	0.25
Meets WR	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	N/A	Yes	No
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	No
12/31/2009 - Gross**	6.83	1.94	3.93	11.13	1.20	3.45	3.82	1.40	0.48	7.11	N/A	1.89	N/A
12/31/2009 - Net	-0.12	1.02	1.57	2.21	0.52	1.84	2.17	0.79	0.07	3.61	N/A	1.13	N/A
Meets WR	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	No	N/A
03/31/2010 - Gross***	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
03/31/2010 - Net	-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
Meets WR	Yes	No	No	Yes	No	No	Yes	No	No	Yes	N/A	Yes	N/A
Meets MRS	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	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
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
Meets WR	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	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
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
Meets WR	Yes	No	No	Yes	No	No	Yes	No	No	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
12/31/2010 - Gross***	6.56	2.23	4.04	13.45	1.35	3.41	3.71	2.34	0.60	8.17	N/A	2.21	N/A
12/31/2010 - Net	-0.15	1.20	1.73	3.85	0.83	0.67	2.25	1.48	0.09	4.34	N/A	1.17	N/A
Meets WR	Yes	No	No	Yes	No	No	Yes	No	No	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	N/A	Yes	N/A
03/31/2011 - Gross***	6.53	2.09	4.43	13.7	1.31	3.37	3.8	2.48	0.63	8.61	N/A	2.29	N/A
03/31/2011 - Net	-0.06	1.05	2.11	3.86	0.7	0.38	1.82	1.58	0.1	4.78	N/A	1.19	N/A
Meets WR	Yes	No	Yes	Yes	No	No	No	No	No	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A

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

Failure to meet minimum required surplus
company assessed 450 bps penalty

Required Writing Ratio Date	Tower Hill						Privilege						
	Southern	United	Universal	American	Signature	Florida	Cypress	Underwriters	American	First	Modern	Olympus	
	St. Johns Ins Co	Fidelity Ins Co	P&C Ins Co	P&C Ins Co	Capital Assur Corp	Ins Co - fka Royal Palm	Peninsula Ins Co	P&C Ins Co	Reciprocal Exchange	Integrity Ins Co	Home Ins Co		USA 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	
(Quarter Ended)													
06/30/2011 - Gross***	6.71	2.22	4.62	13.89	1.6	3.18	3.88	2.57	0.68	8.91	N/A	2.46	N/A
06/30/2011 - Net	-0.42	0.93	2.14	2.97	0.99	-1.67	1.72	1.63	0.12	4.35	N/A	1.32	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	No	No	No	N/A	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
09/30/2011 - Gross***	6.67	2.21	4.93	14.37	1.77	2.9	3.94	2.68	0.7	8.87	N/A	2.5	N/A
09/30/2011 - Net	0.31	0.97	2.31	2.7	1.15	0.02	1.49	1.67	0.14	4.76	N/A	1.31	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	No	N/A	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
12/31/2011 - Gross***	6.76	2.24	5.26	14.82	1.98	2.68	4.51	2.83	0.72	8.97	N/A	2.49	N/A
12/31/2011 - Net	0.31	0.99	2.58	3.76	1.36	0	1.42	1.78	0.14	4.35	N/A	1.31	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	N/A	Yes	N/A
3/31/2012 - Gross***	6.96	2.30	5.44	15.24	2.10	2.58	4.87	3.00	1.14	9.36	N/A	2.50	N/A
3/31/2012 - Net	0.40	1.04	2.73	3.48	1.43	-0.14	1.88	1.91	0.23	4.69	N/A	1.30	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	Yes	N/A	Yes	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	N/A	Yes	N/A
6/30/2012 - Gross***	7.21	2.38	5.7	15.45	1.91	2.61	5.53	3.11	0.77	9.75	N/A	2.55	N/A
6/30/2012 - Net	0.47	0.87	2.61	4.83	1.2	0.46	1.99	1.97	0.16	4.25	N/A	1.34	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	N/A	Yes	N/A
9/30/2012 - Gross***	7.31	2.41	6.02	15.93	1.94	2.7	6.01	3.17	0.82	10.5	N/A	2.58	N/A
9/30/2012 - Net	0.51	0.93	2.93	5.28	1.23	0.38	2.28	1.97	0.18	4.49	N/A	1.39	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	N/A	Yes	N/A
12/31/2012 - Gross***	7.42	2.53	6.39	16.23	1.97	2.77	6.34	3.24	0.88	12.5	N/A	2.66	N/A
12/31/2012 - Net	0.5	0.93	2.68	5.03	1.24	0.4	2.39	1.69	0.19	5.89	N/A	1.45	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
3/31/2013 - Gross***	7.47	2.55	7.17	16.58	2.09	2.91	6.87	3.28	0.93	13.91	N/A	2.74	N/A
3/31/2013 - Net	0.47	0.91	3.03	5.82	1.29	0.46	2.83	1.5	0.2	6.72	N/A	1.54	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
6/30/2013 - Gross***	7.52	2.58	7.77	16.57	2.53	3.03	7.49	3.39	1	15.84	N/A	2.82	N/A
6/30/2013 - Net	0.52	1.04	3.09	5.95	1.67	0.56	3.25	1.38	0.24	6.42	N/A	1.62	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
9/30/2013 - Gross***	7.66	2.57	8.25	16.52	2.74	3.14	7.98	3.47	1.03	17.2	N/A	2.88	N/A
9/30/2013 - Net	0.62	1.01	3.2	6.43	1.86	0.67	3.6	1.37	0.25	7.16	N/A	1.7	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
12/31/2013 - Gross***	7.7	2.54	9.4	16.56	2.87	3.64	7.72	3.47	1.09	17.3	N/A	2.93	N/A
12/31/2013 - Net	0.64	1.13	4.5	5.38	1.9	0.89	3.47	1.55	0.27	7.18	N/A	1.74	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
3/31/2014 - Gross***	7.94	2.55	9.23	16.38	2.92	3.84	7.56	3.47	1.13	18.04	N/A	2.97	N/A
3/31/2014 - Net	0.8	1.15	4.3	5.56	1.93	0.85	3.25	1.59	0.29	7.64	N/A	1.8	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
6/30/2014 - Gross***	7.98	2.53	9.61	16.48	3.19	4.16	7.83	3.42	1.17	19.19	N/A	3.07	N/A
6/30/2014 - Net	0.87	1.26	4.33	6.78	2.19	0.74	3.44	1.6	0.27	8.09	N/A	1.9	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
9/30/2014 - Gross***	7.98	2.59	9.83	16.76	3.21	4.29	7.85	3.36	1.37	19.96	N/A	3.18	N/A
9/30/2014 - Net	0.86	1.28	4.65	7.43	2.08	0.91	3.42	1.59	0.24	8.56	N/A	1.97	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A

	Tower Hill					Privilege				Modern USA Ins Co	Olympus Ins Co		
	Southern Fidelity Ins Co	United P&C Ins Co	Universal P&C Ins Co	American Capital Assur Corp	Signature Ins Co - fka Royal Palm	Florida Peninsula Ins Co	Cypress P&C Ins Co	Underwriters Reciprocal Exchange	American Integrity Ins Co			First Home Ins Co	
Required Writing Ratio Date	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
(Quarter Ended)													
12/31/2014 - Gross***	8.01	2.65	9.56	17.03	3.21	3.96	7.59	3.4	1.27	19.93	N/A	3.27	N/A
12/31/2014 - Net	0.95	1.31	5.52	8.15	2.12	0.82	3.39	1.67	0.2	8.74	N/A	2.04	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
3/31/2015 - Gross***	7.89	2.55	9.59	17.54	3.2	3.96	7.4	3.33	1.33	20.69	N/A	3.33	N/A
3/31/2015 - Net	0.94	1.2	5.88	8.94	2.09	1.01	3.21	1.65	0.21	9.25	N/A	2.05	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
6/30/2015 - Gross***	7.89	2.51	9.65	18.28	3.24	3.95	6.99	3.27	1.39	20.52	N/A	3.35	N/A
6/30/2015 - Net	0.92	1.29	6.68	11.26	2.69	1.21	3.19	1.6	0.24	8.99	N/A	2.03	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A
9/30/2015 - Gross***	7.91	2.52	10.03	18.94	3.12	3.94	6.82	3.26	1.28	20.76	N/A	3.44	N/A
9/30/2015 - Net	0.93	1.29	7.2	12.66	2.54	1.08	3.03	1.99	0.31	9.09	N/A	2.06	N/A
Meets WR****	Yes	N/A	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Meets MRS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	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.

α. Per OIR Consent Order dated 02/07/11 and SBA Addendum #2, Royal Palm pays no penalty for failure to meet the minimum writing ratio for 2011.

MRS - Minimum Required Surplus to be maintained by the Surplus 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 and 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.

Royal Palm did not pay a penalty for 12/31/10 as the acquisition in February 2011 cured the deficiency in MRS.

Additional penalty paid by Modern was 450 bps for not meeting at 12/31/09.

Additional penalty paid by St Johns was 450 bps for not meeting at 03/31/10.

Additional penalties paid by Tower Hill Signature were 450 bps for not meeting at 12/31/11, 3/31/12, 6/30/12, and 9/30/12.

*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.

***Beginning in 2010, companies will meet the minimum writing ratio by meeting a net ratio of 2:1, or a gross ratio of 6:1.

****Southern Fidelity, American Capital, Privilege Underwriters, Florida Peninsula, Cypress P&C and Tower Hill Signature executed an addendum reducing the term by five years and eliminating the need to meet the premium to surplus ratio.

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.

•OIR provided information about the levels of reinsurance for all companies on 10/12/2011. Most companies appeared to maintain a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2011-2012. A few companies did not appear to have sufficient surplus and reinsurance to cover its 1 in 100 year PML and the Board is attempting to get clarification from OIR as to its certification.

•OIR certified levels of reinsurance for all companies on 2/5/13. With the exception of St. Johns Insurance Co, each company maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2012-2013. St. Johns' levels were 98.2% of their 1-in-100 yr PML; SBA requested a letter from them outlining a plan to comply with S. 215.5595(2)(d). SBA received a response from St. Johns dated April 29, 2013, indicating their intent to maintain a level of surplus and reins sufficient to cover its 1 in 100 PML; the SBA plans to take no further action on the issue.

•OIR certified on 08/01/13 that each of the 11 companies has maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2013-2014.

•OIR certified on 08/25/14 that each of the 11 companies has maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2014-2015.

•OIR certified on 08/26/15 that each of the 11 companies has maintained a sufficient level of surplus and reinsurance to cover its 1-in-100 PML for 2015-2016.