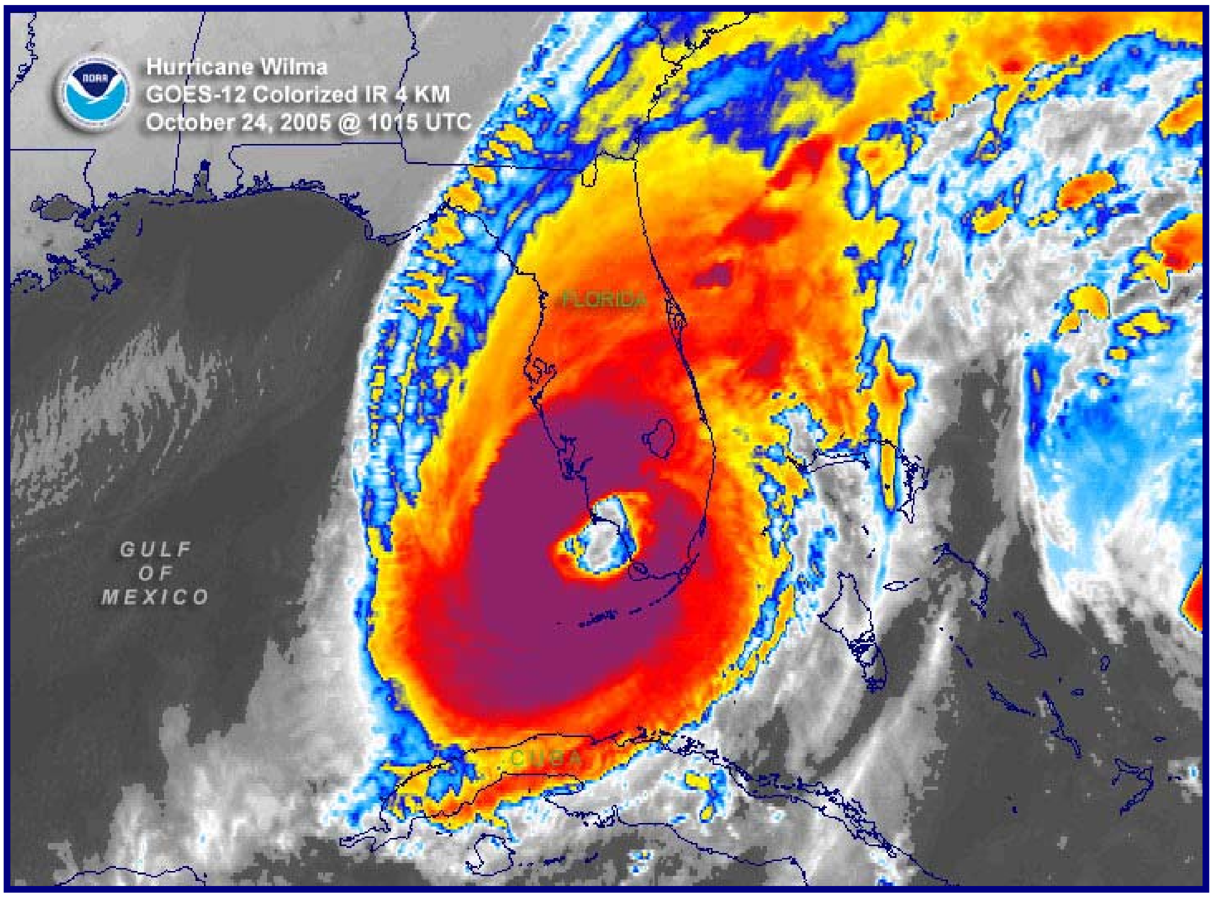
June 2007, Tenth Edition

Florida Hurricane Catastrophe Fund

2007/2008 Member Handbook



State Board of Administration of Florida

Table of Contents

Table of Contents	**Page**
Introduction	1
Purpose	1
Organization	1
Financial Structure	1
Covered Events	1
Covered Policies	2
Company Participation	2
Petitioning for Exemption	2
Reimbursement Contract	3
Reimbursement Premium – Mandatory FHCF Coverage	3
Reimbursement Premium Installments – Mandatory FHCF Coverage	4
Additional Coverage Option (Up to $10 Million coverage option)	4
Temporary Emergency Options for Additional Coverage (TEACO)	5
Temporary Increase in Coverage Limit Options (TICL)	6
Reporting Requirements – Exposure Data	6
New Participants	7
Company Retention - Mandatory FHCF Coverage	7
Drop-Down Retention - Mandatory FHCF Coverage	8
FHCF Capacity – Mandatory FHCF Coverage	8
Emergency Assessment	8
Mandatory FHCF Coverage Structure	9
Subsequent Season – Mandatory FHCF Coverage	10
TEACO Coverage Structure	10
TICL Coverage Structure	11
2007 FHCF Coverage Example	12
Reporting Requirements – Loss Data	13
Online Loss Reporting	13
FHCF Examinations	14
Legislation and SBA Rules	15
FHCF Key Dates	15
Frequently Asked Questions (FAQ’s) for the 2007/2008 Data Call	17
Information Online	36
Summary	36
Directory	37

INTRODUCTION

The purpose of this handbook is to provide an overview of the operation of the Florida Hurricane Catastrophe Fund (FHCF), company requirements, and available sources of information regarding the FHCF.

This handbook is provided for informational purposes only. Although it is believed to be reliable, it is not guaranteed as to its accuracy or completeness. The Florida Statutes, along with the Rules adopted by the State Board of Administration of Florida (SBA), should be consulted as the authoritative source on all FHCF policies and requirements.

PURPOSE

The FHCF was created in November 1993 during a special legislative session after Hurricane Andrew. The enabling legislation is codified in Section 215.555, Florida Statutes. The purpose of the FHCF is to improve the availability and affordability of residential property insurance in Florida by providing reimbursement to insurers for a portion of their catastrophic hurricane losses.

ORGANIZATION

The FHCF is structured as a state trust fund under the direction and control of the SBA. Its trustees are the Governor, the Chief Financial Officer, and the Attorney General. A nine-member advisory council has been created to provide the SBA with information and advice. Paragon Strategic Solutions Inc. (Paragon) is the FHCF Administrator as well as the Actuarial Consultant to the SBA. In addition to hiring staff and contracting with other professionals, Section 215.555, Florida Statutes, gives the SBA the authority to adopt rules in order to implement the Statute.

FINANCIAL STRUCTURE

The SBA collects reimbursement premiums from participating companies, and may use money in the FHCF only to pay companies according to their reimbursement contracts, and to pay other obligations and expenses as specified in the Statute. The SBA is responsible for investing the FHCF’s assets. Authority is provided in the Statute for the FHCF Finance Corporation or a local government agency to issue revenue bonds in order to pay reimbursable losses to the extent that funds collected as reimbursement premiums and investment income on those funds are insufficient to meet the SBA’s obligations.

COVERED EVENTS

FHCF coverage is on a per occurrence basis (subject to an annual aggregate limit) and applies to any storm declared to be a hurricane by the National Hurricane Center which causes insured losses in Florida. Coverage begins when a storm becomes classified as a hurricane and continues throughout any subsequent downgrades regardless of whether the hurricane makes landfall. Tropical storms which do not become hurricanes are not covered.

COVERED POLICIES

Covered policies are those policies issued by authorized insurers (not reinsurers), including Citizens Property Insurance Corporation (Citizens), which provide wind or hurricane coverage for residential structures located in the State of Florida, including appurtenant structures, the contents of residential structures, and additional living expense (fair rental value, loss of rent, and business interruption coverage are not covered by the FHCF). This includes commercial-residential, residential, mobile home, tenants, condominium unit owners, and other contents policies and endorsements. Covered policies include policies covering the peril of wind removed from Citizens by an authorized insurer under the terms and conditions of an executed assumption agreement that has been approved by the Office of Insurance Regulation. Note that although a company may have exposure to other types of catastrophic losses (e.g. hail, tornado, flood, etc.) in Florida, only hurricane losses are eligible for FHCF reimbursement.

Covered policies also include collateral protection insurance policies covering personal residences which protect both the borrower's and lender's financial interest, in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy, if such policy can be accurately reported as required in Section 215.555, Florida Statutes.

Covered policies are most likely to be reported in the insurer's statutory annual statement as:

- Fire
- Allied Lines
- Commercial Multiple Peril (non-liability portion covering residential structures and the contents therein; e.g. apartments & condominiums)
- Farmowners Multiple Peril
- Homeowners Multiple Peril
- Inland Marine

Please note that policies covering residential structures or contents, regardless of the line of business in which they are reported (e.g. mobile homes), are covered by the FHCF and this exposure must be reported to the FHCF.

COMPANY PARTICIPATION

All authorized insurers in Florida, including Citizens, which write FHCF covered policies are required by Section 215.555, Florida Statutes, to enter into a Reimbursement Contract with the SBA and to pay an annual reimbursement premium to the FHCF.

PETITIONING FOR EXEMPTION

<u>No Covered Policies</u>:

If a company does not have Covered Policies as of June 30 of the current Contract Year, but was an active participant in the FHCF for the preceding Contract Year, a letter requesting to petition for exemption from the FHCF must be received by the FHCF Administrator no later than September 1 of the current Contract Year. See Rule 19-8.012, Florida Administrative Code (F.A.C.) for more information. This Rule is available online at www.sbafla.com/fhcf under "FHCF Rules."

De Minimis Exemption due to Limited Exposure:

Section 215.555, Florida Statutes, allows the SBA to consider an exemption for a company with less than $10 million of FHCF covered exposure (not premium), provided the company submits a written request to the FHCF Administrator. Such requests must be received no later than June 1 of the upcoming Contract Year and may not be withdrawn. See Rule 19-8.012, F.A.C. for more information. The SBA may not grant an exemption if the aggregate number of anticipated exemptions adversely affects the actuarial soundness of the FHCF.

REIMBURSEMENT CONTRACT

The annual FHCF contract period is from June 1st through May 31st. Contracts must be executed and returned to the FHCF's Administrator no later than June 1st of each Contract Year. Included in the executed contract is the company's selected coverage level of 45%, 75%, or 90%. All companies that are members of the same insurer group, as designated by the National Association of Insurance Commissioners (NAIC), must elect the same coverage level. Since the FHCF issued revenue bonds in July of 2006 and those bonds have not been fully repaid, a company may not select a coverage level that is less than its selection under the prior Contract Year effective June 1, 2006.

There are also five Addenda to the 2007 FHCF Contract. The first three Addenda address additional optional coverages available to companies and are described later in this Handbook. Addendum No. 4 clarifies that without prior approval of the Office of Insurance Regulation, a company cannot sell, assign, or transfer any sums the FHCF pays to a third party in return for a fee or other consideration. Addendum No. 5 is only applicable to Citizens. The Reimbursement Contract and Addenda are available online at www.sbafla.com/fhcf under "Insurer Information."

REIMBURSEMENT PREMIUM – MANDATORY FHCF COVERAGE

A company's annual reimbursement premium for the mandatory FHCF coverage is based on an actuarial formula specifying the amount of premium to be paid for each $1,000 of insured value for covered policies in each 5-digit Florida ZIP Code by type of business, construction class, and deductible group. The coverage level chosen by the company and contract addenda elections are also considered in the premium calculation.

In addition, credits are applied to the calculated FHCF premium for qualifying exposure units that receive Building Code Effectiveness Grading (BCEG) credits from their direct insurance writers.

Paragon has been retained by the SBA as the independent actuarial consultant to develop the reimbursement premium formula and the rates to be used in determining the annual reimbursement premium due from each company. The annual rates, rating region definitions, and Ratemaking Formula Report are available online at www.sbafla.com/fhcf under "Insurer Information."

REIMBURSEMENT PREMIUM INSTALLMENTS – MANDATORY FHCF COVERAGE

The annual reimbursement premium for the mandatory FHCF coverage is payable in three installments: August 1st, October 1st, and December 1st of the Contract Year. Due to the timing of the exposure reporting and final premium calculation, the first two installments are provisional billings, each based on one third of a company's prior Contract Year premium. The third installment is based on the final premium calculated from the company's exposure reported to the FHCF in the Data Call submission, less the amounts received from the provisional billings. Companies with a final premium of $5,000 or less for the prior Contract Year will be billed a full provisional premium in that amount for the first installment. For any company that has been placed under regulatory supervision by a state or control of the company has been transferred through any legal or regulatory proceeding to a state regulator, court appointed receiver, or rehabilitator (referred to collectively as "state action"), the full provisional premium as billed, and any outstanding balances, will be due on August 1st or the date that such state action occurs after August 1st and before May 31st of the Contract Year.

ADDITIONAL COVERAGE OPTION (UP TO $10 MILLION) PURSUANT TO SECTION 215.555(4)(b)4., FLORIDA STATUTES

2007 legislation provides an additional coverage option for companies that purchased this coverage option under the 2006/2007 Contract Year, companies qualifying as limited apportionment companies for the 2007/2008 Contract Year, and companies that were approved to participate in 2006 or that are approved in 2007 for the Insurance Capital Build-Up Incentive Program pursuant to Section 215.5595, Florida Statutes. Qualifying companies may select additional coverage of up to $10 million by returning Addendum No. 1 to the 2007/2008 Reimbursement Contract no later than June 1, 2007.

The premium for this coverage is 50 percent of the additional reimbursement coverage selected (includes one prepaid full reinstatement), which will be due in three equal installments at the same time as the mandatory FHCF coverage premium installments (preceding section).

The retention level for this additional coverage for each Covered Event is 30 percent of the company's surplus as of December 31, 2006 as reported to the Florida Office of Insurance Regulation. For a company that did not have a surplus as of December 31, 2006, surplus shall be deemed to be the surplus reported to the Office of Insurance Regulation at the time the company received its Certificate of Authority. The reimbursement percentage applicable to this additional coverage is 100 percent, which includes reimbursement for loss adjustment expense as provided under the Reimbursement Contract. Note that the loss adjustment expense reimbursement is included within the 100 percent coverage; it is not an additional 5 percent above the 100 percent.

Coverage provided under this additional coverage option shall otherwise be consistent with the terms and conditions of the Reimbursement Contract, including, but not limited to, definitions, exclusions, loss reporting, and examination procedures. This additional coverage may not overlap or duplicate coverage otherwise provided for in the Reimbursement Contract or offset any co-payments (reimbursements shall not occur within the mandatory FHCF coverage, optional TEACO coverage, or optional TICL coverage layers).

This additional coverage is in addition to all other coverage provided under the Reimbursement Contract and Addenda, and is in addition to the mandatory FHCF coverage claims-paying capacity of the FHCF as defined in Section 215.555(4)(c)1., Florida Statutes, and shall not otherwise affect any company's reimbursement from the FHCF if the company is ineligible to select this coverage or if the company is eligible to select this coverage but chooses not to select this coverage.

TEMPORARY EMERGENCY OPTIONS FOR ADDITIONAL COVERAGE (TEACO)

2007 legislation provides an option for additional FHCF reimbursement coverage below the mandatory FHCF coverage layer for the 2007/2008 Contract Year (as well as the 2008/2009 and 2009/2010 Contract Years). A company may purchase its mandatory FHCF premium share of coverage underneath its FHCF retention in excess of one of three industry retention levels (specified as $3 billion, $4 billion, or $5 billion) by returning Addendum No. 2 to the 2007/2008 Reimbursement Contract no later than June 1, 2007.

The cost, or "premium", for this coverage is 75 cents, 80 cents, or 85 cents for each dollar of coverage for the company's share of the layer associated with a $5 billion, $4 billion, and $3 billion industry retentions, respectively. A company's TEACO premium will be due in three equal installments at the same time as the mandatory FHCF coverage premium installments.

The TEACO coverage is on an occurrence basis and includes a reinstatement. The full limit of the TEACO coverage is available for the company's two largest covered events. The company will be reimbursed for 45%, 75%, or 90% of its paid losses within its TEACO coverage layer plus 5% of the reimbursed losses for loss adjustment expense, not to exceed the company's TEACO coverage limit. See the TEACO Coverage Structure section later in this Handbook for details on how to calculate a company's TEACO coverage amount.

Coverage provided under this additional coverage option shall otherwise be consistent with the terms and conditions of the Reimbursement Contract, including, but not limited to, definitions, exclusions, reimbursement percentage, loss reporting, reimbursement for loss adjustment expense, and examination procedures. This additional coverage may not overlap or duplicate coverage otherwise provided for in the Reimbursement Contract or offset any co-payments (reimbursements shall not occur within the standard FHCF coverage layer).

This additional coverage is in addition to all other coverage provided under the Reimbursement Contract and is in addition to the mandatory FHCF coverage claims-paying capacity of the FHCF as defined in Section 215.555(4)(c)1., Florida Statutes, and shall not otherwise affect any company's reimbursement from the FHCF if the company chooses not to select a TEACO option to increase its limit of FHCF coverage.

TEMPORARY INCREASE IN COVERAGE LIMIT OPTIONS (TICL)

2007 legislation provides an option for additional FHCF reimbursement coverage above the mandatory FHCF coverage layer for the 2007/2008 FHCF Contract Year (as well as the 2008/2009 and 2009/2010 Contract Years). A company may purchase its mandatory FHCF premium share of one of twelve optional coverages in $1 billion increments ($1 billion to $12 billion) above its mandatory FHCF coverage by returning Addendum No. 3 to the 2007/2008 Reimbursement Contract no later than June 1, 2007.

A company's TICL premium will be determined in accordance with Section 215.555(5), Florida Statutes and will be due in three equal installments at the same time as the mandatory FHCF coverage premium installments. The rate on line for the twelve TICL coverage options in included in Exhibit XVII of the 2007 Ratemaking Formula Report (available online at www.sbafla.com/fhcf under "Insurer Information").

The company's increased coverage is calculated by multiplying the company's mandatory FHCF premium by the TICL multiple (see the TICL Coverage Structure section later in this Handbook for more details). Each TICL multiple is calculated by dividing the TICL coverage selected by the aggregate mandatory FHCF premium paid by all companies. The company's total limit of coverage is calculated by adding the TICL multiple to the regular payout multiple and multiplying by the mandatory FHCF premium. The company will be reimbursed for 45%, 75%, or 90% (depending on coverage selected) of the losses from each covered event in excess of the company's FHCF retention plus 5% of the reimbursed losses for loss adjustment expense, not to exceed the total limit as defined above.

Coverage provided under this additional coverage option shall otherwise be consistent with the terms and conditions of the Reimbursement Contract, including, but not limited to, definitions, exclusions, loss reporting, and examination procedures. This additional coverage may not overlap or duplicate coverage otherwise provided for in the Reimbursement Contract or offset any co-payments (reimbursements shall not occur within the standard FHCF coverage layer).

This additional coverage is in addition to all other coverage provided under the Reimbursement Contract and is in addition to the mandatory FHCF coverage claims-paying capacity of the FHCF as defined in Section 215.555(4)(c)1., Florida Statutes, and shall not otherwise affect any company's reimbursement from the FHCF if the company chooses not to select a TICL option to increase its limit of FHCF coverage.

REPORTING REQUIREMENTS – EXPOSURE DATA

In order to calculate FHCF premium for the mandatory FHCF coverage, each company must report its total covered property exposure in force under covered policies **as of June 30th** to the FHCF, categorized by certain rating factors. This information is statutorily required to be reported by September 1st. The exposure reporting requirements are specified in the Data Call sent to each insurer at the beginning of the Contract Year. The Data Call is available online at www.sbafla.com/fhcf under "Insurer Information."

NEW PARTICIPANTS

Companies that begin to write covered policies on or after the beginning of the FHCF's Contract Year on June 1st are considered new participants for that Contract Year. A company that removes exposure from Citizens pursuant to an assumption agreement effective on or after June 1st and had written no other covered policies before June 1st is also considered a new participant. Coverage under the FHCF commences on the effective date of coverage of the insurer's first FHCF covered policy or the date covered policies are removed from Citizens pursuant to an assumption agreement. New participants must notify the FHCF immediately upon writing FHCF covered policies. The FHCF will then send Reimbursement Contracts to be executed, along with a premium invoice of $1,000. The $1,000 premium shall be a provisional premium until the company's final FHCF premium is calculated.

New participants that begin writing covered policies or remove policies from Citizens pursuant to an assumption agreement prior to December 1st of the Contract Year will be sent a Data Call with supplemental instructions for new participants in December. The Data Call is available online at www.sbafla.com/fhcf under "Insurer Information." This Data Call is the same document used by current participants except that these new participants must report their total covered property exposure in force under covered policies as of December 31st to the FHCF by March 1st of the Contract Year.

To recognize that these new participants have limited exposure during the first Contract Year, the actual premium (determined by processing the company's exposure data) will be divided in half. The provisional premium will be credited, and the resulting amount will be the total premium due for the company for the remainder of the Contract Year. However, if that amount is less than $1,000, $1,000 will be the final premium. The final premium payment is due no later than May 1st of the Contract Year. The company's retention and maximum recovery from the FHCF will be based on the final adjusted premium.

For companies that begin writing covered policies or remove polices from Citizens pursuant to an assumption agreement on or after December 1st of the Contract Year, the $1,000 premium shall be the final premium for the Contract Year. As such, the insurer shall not report any exposure data for this contract period.

COMPANY RETENTION – MANDATORY FHCF COVERAGE

As the reimbursement premium formula is developed for the Contract Year, a retention multiple is established for each coverage level. A company's full retention for its mandatory FHCF coverage is calculated by multiplying its annual reimbursement premium for the mandatory FHCF coverage by the multiple corresponding to the selected coverage level.

$15.845 Billion xs $6.089 Billion

Coverage Level	2007/2008 Retention Multiple	Premium	Full Retention (Premium x Retention Multiple)
90%	6.1812	$1,000,000	$6,181,200
75%	7.4174	$833,333	$6,181,200
45%	12.3624	$500,000	$6,181,200

While the retention remains the same regardless of the coverage level selected, the portion of subject losses reimbursed by the FHCF depends upon the coverage option selected.

Since FHCF coverage is on a per occurrence basis, a company will need to exceed its full retention for each event before recoveries from the FHCF are triggered, except as noted in the following section.

DROP-DOWN RETENTION – MANDATORY FHCF COVERAGE

Beginning with the 2005/2006 Contract Year, Section 215.555, Florida Statutes, provides for a drop-down retention in certain circumstances. A company's full FHCF retention for its mandatory FHCF coverage shall apply to each of the company's largest two hurricanes (in terms of losses covered by the FHCF). The company's full retention would then be adjusted to 1/3 for any other hurricanes occurring during the 2007/2008 Contract Year. If applicable, the 1/3 adjustment(s) will be made after January 1st of the Contract Year.

FHCF CAPACITY – MANDATORY FHCF COVERAGE

Reimbursement of covered losses is limited by the claims paying capacity of the FHCF. The capacity of the FHCF for the mandatory FHCF coverage, by Florida Statute, cannot exceed $15.845 billion for the 2007/2008 Contract Year. The claims paying capacity is the total of the cash balance of the FHCF as of 12/31 of the Contract Year (amount of assets available to pay claims, not including bonding proceeds) in which the covered event occurs, plus the amount the SBA is able to raise through the issuance of revenue bonds, the purchase of reinsurance, or other financial mechanisms. It is projected that the FHCF would require $13.845 billion to provide the maximum amount of capacity for the mandatory FHCF coverage under the 2007/2008 Contract Year:

12/31/2007 Projected Fund Balance		Estimated Bonding Required		Estimated Claims Paying Capacity
$2,414,800,000	+	$13,430,200,000	=	$15,845,000,000

EMERGENCY ASSESSMENT

To service the outstanding revenue bonds, as the term is defined in Section 215.555(2)(g), Florida Statutes, and to reimburse insurers for their reimbursable losses under a covered event, the SBA may direct the Office of Insurance Regulation within the Department of

Financial Services to levy an emergency assessment. The maximum assessment is 6% of direct premiums for future premium collections for property and casualty business in Florida (excluding workers' compensation and accident & health) in any Contract Year, up to a cumulative assessment of 10%. Note that for losses occurring before June 1, 2010, direct premium for medical malpractice is also excluded from the assessment base. Surplus lines are included in the emergency assessment base given the excluded lines as noted above.

The total hurricane loss reimbursements by the FHCF are expected to be $3.95 billion for the Contract Year 2004 covered events and $4.50 billion for the Contract Year 2005 covered events. As a result, the FHCF experienced a shortfall for the 2005 Contract Year and therefore issued Series 2006A Revenue Bonds in the amount of $1,350,025,000. Beginning in January 2007, debt service on the 2006A Revenue Bonds is being paid from a 1% emergency assessment on all assessable lines for six (6) years.

In order to have liquid assets in place to meet future obligations of the FHCF, pre-event notes in the amount of $2.8 billion were issued in July 2006. The expense of these pre-event notes is self-funded by the FHCF's investment earnings on those funds and by reimbursement premiums, if necessary.

For more information regarding emergency assessments, including assessable lines, please review Rule 19-8.013, F.A.C., entitled "Revenue Bonds Issued Pursuant to Section 215.555(6), Florida Statutes" (available online at www.sbafla.com/fhcf under "FHCF Rules.")

MANDATORY FHCF COVERAGE STRUCTURE

The projected payout multiple determines the mandatory FHCF coverage limit provided to each company, and is calculated as follows:

Projected Maximum Claims Paying Capacity		Estimated Aggregate 2007 FHCF Premium		Projected Payout Multiple
$15,845,000,000	/	$980,467,933	=	16.1606

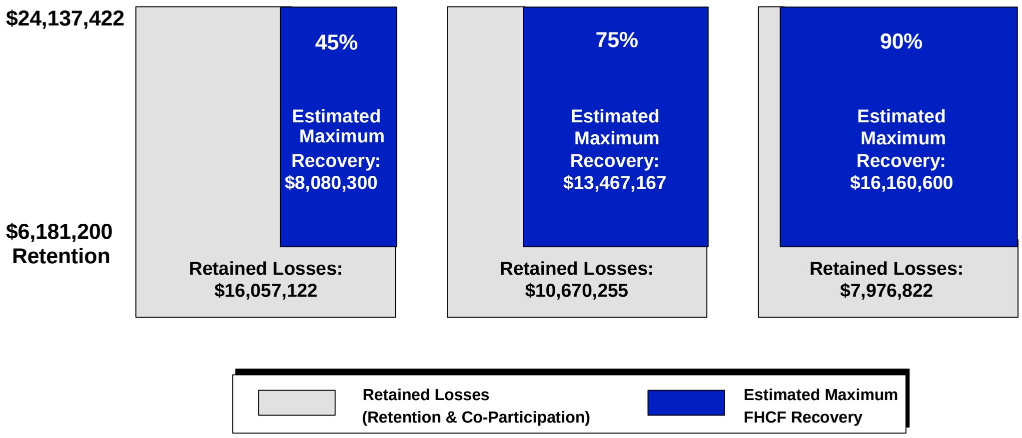
The maximum amount a company could recover from the FHCF under the 2007/2008 Contract Year is calculated as follows:

2007 FHCF Annual Reimbursement Premium x Final Payout Multiple = Maximum Recovery

The final payout multiple will equal $15.845 billion divided by the total reimbursement premiums billed as of December 31st.

This is, in effect, a company's market share of the FHCF's estimated claims-paying capacity. Note that this factor includes the additional 5% of FHCF reimbursed losses paid for loss adjustment expense. Also, it must be emphasized that all reported claims are subject to verification prior to reimbursement and will be further reviewed during subsequent examinations by the SBA.

FHCF reimbursement is the selected percentage (45%, 75%, or 90% coverage level) of covered losses above a company's retention. For a company with a $1 million mandatory FHCF coverage premium, a ground-up subject loss of approximately $24.14 million could result in the maximum mandatory FHCF coverage reimbursements illustrated below:



See section Drop-Down Retention (discussed earlier) for additional information on the loss reimbursement structure.

SUBSEQUENT SEASON - MANDATORY FHCF COVERAGE

One of the purposes in capping payouts for the initial season is to reserve capacity for hurricanes that might occur in subsequent Contract Years. Assuming a $15.845 billion mandatory FHCF coverage loss to the FHCF in Contract Year 2007/2008, it is anticipated that Contract Year 2008/2009 would have the following capacity available:

12/31/2008 Projected Fund Balance		Estimated Bonding Capacity		Estimated Claims Paying Capacity
$1,268,100,000	+	$14,576,900,000	=	$15,845,000,000

TEACO COVERAGE STRUCTURE

A company may purchase its mandatory FHCF premium share of coverage underneath its FHCF retention in excess of $3 billion, $4 billion, or $5 billion. For a company participating at the 90% level with a $1 million mandatory FHCF coverage premium, TEACO retention would be calculated as follows:

Coverage Level	TEACO Industry Retention	TEACO Retention Multiple	Mandatory FHCF Coverage Premium	TEACO Retention (Premium x Retention Multiple)
90%	$3,000,000,000	3.0454	$1,000,000	$3,045,400
90%	$4,000,000,000	4.0606	$1,000,000	$4,060,600
90%	$5,000,000,000	5.0757	$1,000,000	$5,075,700

45% and 75% coverage level TEACO Retention multiples can be found in Exhibit XVI of the 2007 FHCF Ratemaking Report available online at www.sbafla.com/fhcf (page 120 of the PDF document). The TEACO coverage provides for one reinstatement and applies to the two largest loss events. Coverage for the 5% loss adjustment expense is in addition to the TEACO layer.

An illustration of TEACO coverage and its interaction with the mandatory FHCF coverage and optional TICL coverage (see next section) is included after the TICL Coverage Structure section.

TICL COVERAGE STRUCTURE

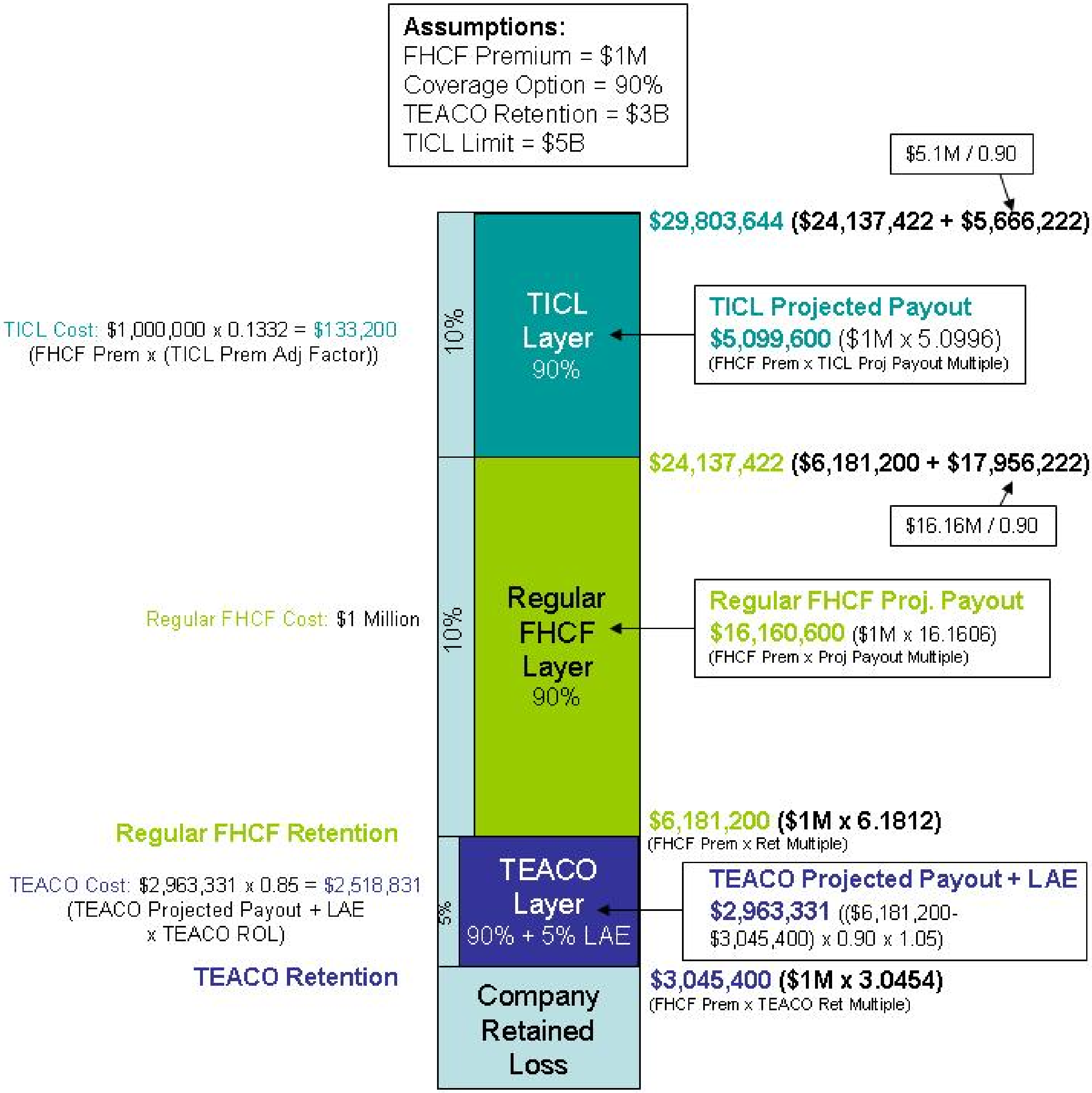
A company may purchase its share of one of twelve optional coverage limits in $1 billion increments ($1 billion to $12 billion) above its mandatory FHCF coverage. For a company with a $1 million mandatory FHCF coverage premium (regardless of the percentage coverage level), the additional TICL coverage would sit immediately above the company's mandatory FHCF coverage and would be calculated as follows:

TICL Limit	2007/2008 TICL Projected Payout Multiple	Mandatory FHCF Coverage Premium	TICL Limit (Premium x TICL Payout Multiple)
$1 Billion	1.0199	$1,000,000	$1,019,900
$2 Billion	2.0398	$1,000,000	$2,039,800
$3 Billion	3.0597	$1,000,000	$3,059,700
$4 Billion	4.0796	$1,000,000	$4,079,600
$5 Billion	5.0996	$1,000,000	$5,099,600
$6 Billion	6.1195	$1,000,000	$6,119,500
$7 Billion	7.1394	$1,000,000	$7,139,400
$8 Billion	8.1593	$1,000,000	$8,159,300
$9 Billion	9.1792	$1,000,000	$9,179,200
$10 Billion	10.1992	$1,000,000	$10,199,200
$11 Billion	11.2191	$1,000,000	$11,219,100
$12 Billion	12.2390	$1,000,000	$12,239,000

TICL payout multiples can also be found in Exhibit XVII of the 2007 FHCF Ratemaking Report available online at www.sbafla.com/fhcf (page 122 of the PDF document).

Following is an illustration of TICL coverage and its interaction with the mandatory FHCF coverage and optional TEACO coverage.

Sample Insurance Company
2007 FHCF Coverage Example



•TEACO multiples found in Exhibit XVI of the Ratemaking Report (page 120 of PDF version available at http://www.sbafla.com/fhcf/ac.asp?FormMode=Call&LinkType=Section&Section=69)
•TICL multiples found in Exhibit XVII of the Ratemaking Report (page 122 of PDF version)

REPORTING REQUIREMENTS – LOSS DATA

Section 215.555, Florida Statutes, requires that companies report their losses from covered events for the Contract Year by filing a Proof of Loss Report no later than December 31st, and quarterly thereafter. Under certain circumstances, earlier reporting may be required. Loss reporting procedures are further clarified in the Contract and the Insurer Reporting Requirements Rule, Rule 19-8.029, available online at www.sbafla.com/fhcf under "FHCF Rules." The necessary reporting forms and detailed instructions are mailed to each insurer following a covered event. These loss reports are also available online at www.sbafla.com/fhcf under "Insurer Information."

Companies are required to report estimated incurred ground-up losses for covered policies on both an incurred basis and a paid basis. The FHCF will reimburse loss adjustment expense, limited to 5% of reimbursable losses, which will be calculated by the FHCF based on reported paid losses. Prior to reimbursement, a company's loss reports are reviewed and tested for reasonableness. As soon as practicable after receiving loss reports, the FHCF will determine and pay reimbursement amounts due to the insurer. Adjustments will be made, as necessary, following subsequent loss reports. Note that companies must submit a Detailed Claims Listing (as specified on the Proof of Loss Report form) to support the losses reported in its first Proof of Loss Report submission for a specific hurricane that qualifies the company for reimbursement under that hurricane.

FHCF reimbursement amounts will not be reduced by reinsurance paid or payable to the insurer from other sources.

In the event of an insurer's insolvency, the FHCF will reimburse banks, reinsurers, or other financial institutions to cover obligations of the insolvent insurer under a credit agreement that assists the insolvent insurer in paying claims attributable to covered events. After these obligations are met, the Florida Insurance Guaranty Association will be paid for the insolvent insurer.

Section 215.555, Florida Statutes, also provides for advances in the interim for insurers that may otherwise become insolvent, Citizens, and limited apportionment companies which meet certain criteria.

The Contract calls for the commutation of FHCF losses not less than three years or more than five years after the end of the Contract Year in which losses occurred. Any remaining claims and losses which are not finally settled and which may be reimbursable losses under the Contract will be reported to the FHCF and a final reimbursement will be determined and issued. The period for commutation of 2004/2005 Contract Year Losses will begin June 1, 2008. For more information regarding the commutation process, see Article X – Reports and Remittances (3)(d) of the Contract.

ONLINE LOSS REPORTING

As an alternative to manual hardcopy loss reporting, the FHCF Online Claims System (system) may be used to submit loss reports and view prior online loss report submissions and payment documentation. The system may be accessed by clicking “insurer information” on the SBA’s FHCF website at www.sbafla.com/fhcf or directly on Paragon’s FHCF website at www.paragonbenfield.com/fhcf.

Once the online registration process is fully complete, your company will be able to electronically certify, “sign”, and submit your FHCF loss reports. A maximum of five users may be registered (at least two users must be officers). All users may enter loss data, but only officers will be given system submission rights (Proof of Loss Reports require the signature of two officers). Officer authority will be verified by the FHCF and an Officer Registration letter must be signed by each officer and the original returned to the FHCF as instructed on the letter. This Officer Registration letter will be kept on file by the FHCF and allows a system “signature” based on the officer login.

Other features of the system include pre-population of certain loss report fields such as company name, FHCF retention, and previous reimbursements; automated calculations; ability to upload supporting documentation; identification of errors requiring correction (e.g. advance request box checked but no documentation included); and identification of potential discrepancies (e.g. losses for a particular type of business exceeding exposure reported for that type of business or a decrease in paid losses).

FHCF EXAMINATIONS

The SBA has two separate examination programs to test the accuracy and completeness of exposure data and the accuracy of losses reported to the FHCF. The examinations are limited in scope and should not be relied upon by the insurer as a determination of complete compliance with the applicable FHCF statutes, rules, and reporting requirements.

For an exposure examination, it is important that companies retain all records, information, and policy level details that are used to prepare the Data Call submission required to be sent to the FHCF by September 1st of the Contract Year. Companies are required to prepare and retain an Exam File as specified on page 5 of the 2007 Data Call instructions until a company is notified for an exam. The Advance Preparation Instructions for an exposure examination are listed in FHCF Form-EAP1.

For a loss reimbursement examination, a company is required to retain a Detailed Claims Listing to support any Proof of Loss Report submitted to the FHCF for an advance or reimbursement. In addition, a company must provide claims files and any other records needed to support reported losses. Detailed information required for a loss reimbursement examination is listed in FHCF Form-LAP1.

The SBA notifies a company at least sixty days prior to the commencement of the examination and provides detailed instructions for preparing data, records, and reports for use by the examiner. Companies are required to provide advance records within 30 days of the date of the notice letter. If delays in providing information requested by the SBA for an examination result in the SBA having to reschedule an examination, and expenses are incurred in addition to the usual and customary costs of the examination, the company may be required to reimburse the FHCF.

Companies are **required** to retain supporting records, as specified in the FHCF Data Call instructions and the Proof of Loss Report form, until the FHCF has completed an examination of the company's exposure data and loss reimbursement data in applicable years. Retention of records is imperative, as an examination may result in a re-filing or other corrective action, or an adjustment to a company's FHCF premium or loss recovery.

LEGISLATION AND SBA RULES

As indicated in the introductory section of this Handbook, the FHCF was created in 1993 by the Florida Legislature. The enabling legislation is codified in Section 215.555, Florida Statutes. A copy is available online at www.sbafla.com/fhcf under "Legislation."

Specific policies and provisions of the FHCF are outlined in the rules of the SBA. The rulemaking process includes workshops, public hearings, and final approval by the SBA Trustees. The rules are continually being updated in order to accommodate new procedures and forms necessary for the administration of the FHCF. All proposed amendments to the rules are published in the *Florida Administrative Weekly* and can also be found online at www.sbafla.com/fhcf under "Proposed Rules". Once the proposed amendments have been adopted, the rules, as amended, are published in the Florida Administrative Code. All rules (proposed or adopted) are available online at www.sbafla.com/fhcf under "FHCF Rules."

Rules of the SBA – 2007/2008 Contract Year

19-8.001	Purpose
19-8.010	Reimbursement Contract
19-8.012	De Minimis FHCF Premium Exemption
19-8.012	Ineligibility for FHCF Participation
19-8.013	Issuance of Revenue Bonds
19-8.028	Reimbursement Premium Formula
19-8.029	Insurer Reporting Requirements
19-8.030	Insurer Responsibilities

FHCF KEY DATES

June

- Standard Data Call mailed (insurance in force as of June 30th of the Contract Year).
- 1 - Start of the FHCF Contract Year.
- 1 - Reimbursement Contract and applicable Addenda due.
- 1 - Deadline to petition for De Minimis exemption.
- 30 - Quarterly Proof of Loss Report (POL) due for any hurricane under which the Company has reached or exceeded its FHCF Retention under Contract Years 2004/2005 or 2005/2006, but has not completely paid all losses for that hurricane.
- 30 - Exposure "as of" date.

July
- 1 - First provisional premium installment invoiced.

August
- 1 - First provisional premium installment due.
- 1 - If a company has been placed under regulatory supervision or control has been transferred to a state regulator or court appointed receiver or rehabilitator, the full annual provisional premium is due.

September
- 1 - Data Call submission due (insurance in force as of June 30th of the Contract Year).
- 15 - Second provisional premium installment invoiced.
- 30 - Quarterly POL due for any hurricane under which the Company has reached or exceeded its FHCF Retention under Contract Years 2004/2005 or 2005/2006, but has not completely paid all losses for that hurricane.

October
- FHCF exposure examinations for Contract Year 2007/2008 begin.
- 1 - Second provisional premium installment due.

November
- 15 - Final premium installment invoiced (based on June 30th exposure).

December
- Data Call sent to New Participants (insurance in force as of December 31st of the Contract Year).
- 1 - Final premium payment due.
- 31 - Initial POL due for the current Contract Year (if there is a covered event(s)).
- 31 - Quarterly POL due for any hurricane under which the Company has reached or exceeded its FHCF Retention under Contract Years 2004/2005 or 2005/2006, but has not completely paid all losses for that hurricane.

January
- Annual rule promulgation process for the next Contract Year begins. Drafts of the proposed amendments to the rules, new rules (if any), Data Call/Contract, meeting notices/materials, etc. are available on-line at www.sbafla.com/fhcf.

February

- Projected Payout Summary mailed.

March
- 1 - New Participants writing their first policy on or after June 1 but before December 1, Data Call submission due (insurance in force as of December 31st of the Contract Year).
- 31 - Quarterly POL due for any hurricanes occurring during the current Contract Year under which the Company has reached or exceed 50% of its FHCF retention.
- 31 - Quarterly POL due for any hurricane under which the Company has reached or exceeded its FHCF Retention under Contract Years 2004/2005 or 2005/2006, but has not completely paid all losses for that hurricane.

March - April

- New Participants' final premium installment invoiced (based on December 31st exposure).

May

- Reimbursement Contract for the next Contract Year mailed.
- 1 - New Participants' final premium due.

FREQUENTLY ASKED QUESTIONS (FAQ's) for the 2007/2008 CONTRACT YEAR

To assist companies in accurately reporting exposure and losses, the FHCF maintains a list of frequently asked questions and answers online at www.sbafla.com/fhcf under "Insurer Information." This list is updated each Contract Year as new questions arise regarding the new Data Call and loss reports. Please note that as this Handbook will not be updated until the next Contract Year, you should refer to the online version of the FAQ's for the most up-to-date and comprehensive listing.

Questions are in five categories: Covered Policies, Exposure/Data Call Reporting, SBA Examination – Exposure Reporting, Loss Reporting, and SBA Examination – Loss Reporting. The following are the FAQ's for the 2007/2008 Contract Year.

Covered Policies

Antennas and Satellite Dishes

Q: Should an antenna or satellite dish written as an endorsement to a covered policy be reported?

A Yes, if the antenna or satellite dish includes coverage for wind/hurricane peril.

Barns with Apartments

Q: Are barns with apartments covered by the FHCF?

A: No, neither barns nor barns with apartments are covered by the FHCF.

Bed & Breakfast

Q: Is a bed & breakfast covered?

A: Yes, if used as the owner's primary or secondary residence. Also, the risk would be reported using the FHCF type of business Residential (code "2"). However, if it is covered under a commercial policy covering a variety of risks, a company has the option to report based on the predominate FHCF type of business under that policy. See Commercial-Habitational Clarification #3 in the 2007 Data Call.

Boarding, Lodging, and Rooming Houses

Q: Are boarding, lodging, and rooming houses covered by the FHCF?

A: No, if used for transient occupancy. Yes, if used as a primary or secondary residence.

Business Personal Property

Q: Commercial-Habitational Clarification #8 in the 2007 Data Call clarifies that for policies with a mix of commercial habitational and non-habitational structures, if the non-habitational structure is "used in relation to" the habitational structure (non-habitational structure is used solely by the occupants of the habitational structure or their guests), then the non-habitational structure exposure is reportable to the FHCF. Does the "used in relation to" rule also apply to business personal property?

A: Yes.

Q: Is business personal property insured on a commercial policy and housed in a dwelling (i.e. inventory or business property stored in a personal residence) covered by the FHCF?

A: No.

Collateral Protection

Q: Are commercial-residential buildings insured under a collateral protection policy covered?

A: No. The only collateral protection policies covered by the FHCF are those issued to cover personal residences insured under a homeowners policy which protect both the lender and the borrower's financial interest.

Q: Does the FHCF consider policies issued to cover mobile homes or individual condominium unit owners to fit the definition of policies issued to cover personal residences insured under a homeowners policy?

A: Yes.

Q: If our company cannot provide the supporting documentation that shows the policy was written in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowners policy, is the policy covered by the FHCF?

A: No.

Commercial-Residential Policies

Q: If a commercial policy covers the appurtenant structures or miscellaneous structures related to a habitational structure, but the habitational structure is not covered under the policy, should the exposure be reported?

A: No.

Computers/Radios/Signs/Valuable Papers

Q: Are computers, radios, signs, and valuable papers covered?

A: Yes, if written under a covered policy. However, only report additional exposure if written as an attachment, endorsement or rider that modifies or increases the wind/hurricane limits and/or provides additional coverage for personal property or other structures.

Q: Are computers written on a stand alone inland marine policy covered?

A: Yes, if coverage is provided for the peril of wind and the policy is issued to an individual and not a business.

Condominiums

Q: If the owner of an individual condominium unit (whether owned by a person or by a business) uses the condominium as a primary or secondary residence, but has the option to rent out or lease the property, is the exposure reportable to the FHCF?

A: Yes.

Q: If the owner of an individual condominium unit (whether owned by a person or a business) does not use the condominium as a primary or secondary residence and only rents or leases the unit out, is the exposure reportable to the FHCF?

A: Covered residential structures do not include hotels, motels, timeshares, or other similar structures that are rented out daily, weekly, or monthly. The unit would only be reportable if the tenant uses it as a primary or secondary residence.

Q: If an individual condominium unit owner (1 single unit of a 100 unit complex) does not use the condominium as a primary or secondary residence and rents or leases the unit out to an individual(s) that also does not use the unit as a primary or secondary residence, is the exposure covered by the FHCF?

A: No. A structure must be used as a primary or secondary residence to be covered by the FHCF.

Dormitories

Q: Are dormitories covered by the FHCF?

A: Yes.

Fraternity/Sorority Houses

Q: Are fraternity and sorority houses covered by the FHCF?

A: Yes.

Golf Carts

Q: Are golf carts covered?

A: Yes, if covered under a homeowners policy or endorsement and it is not used for business purposes, rented to others, or subject to motor vehicle registration. No, if written as a stand alone policy.

Grave Markers

Q: Is an endorsement for increased coverage for grave markers covered by the FHCF?

A: Yes, if the endorsement provides coverage for hurricane losses.

Monasteries

Q: Are monasteries covered by the FHCF?

A: Yes, if used as a residential structure.

Refrigerated Contents

Q: Are refrigerated contents coverage provided by endorsement reportable?

A: Yes, if the endorsement provides additional limits for the peril of wind.

Exposure/Data Call Reporting

Additional Living Expense (ALE)

Q: How should our company report ALE if written as a time element coverage without a stated dollar limit?

A: Report either 40% of Coverage A exposure or 40% of the Coverage C exposure depending on how the policy is written (e.g. ALE coverage on a homeowners policy is usually based on structure versus a renters policy is based on contents). Note that reported losses for time element ALE may not exceed the amount of exposure reported under the Data Call.

Q: On certain dwelling fire policies, fair rental value is provided as Coverage D and ALE is provided as Coverage E. We understand that the fair rental value coverage is not covered by the FHCF, but would the Coverage E coverage be reportable?

A: Yes. Any ALE coverage under the policy is reportable up to the statutory limit of 40% of the insured value of a residential structure or its contents.

Q: Some of our company's programs provide ALE and loss of rents/fair rental value/loss of rental income coverages combined as Coverage D. How should we report this exposure?

A: If the full Coverage D limit can be paid as ALE reimbursement, then report the full limit, but not to exceed the statutory limit of 40% of the insured value of a residential structure or its contents. If only a portion of the limit could be paid for ALE, report only that portion of limit applicable to ALE coverage. Also note that when requesting reimbursement from the FHCF, the FHCF will only reimburse the ALE loss.

Q: The Data Call requires that reported ALE exposure is not to exceed 40% of the building or 40% of the contents coverage. As our company provides coverage above these levels, we will be manually capping this exposure for the purpose of reporting to the FHCF. If a policy provides $150,000 of Coverage A limit, and an additional $50,000 of loss assessment coverage that we usually report to the FHCF as building exposure, should we cap the ALE exposure at $60,000 (40% of $150,000) or $80,000 (40% of $200,000)?

A: The 40% cap should be applied to the insured value of the building without consideration of other coverages, such as loss assessment coverage, that may be reported to the FHCF in the building field.

Q: If our company writes a policy with ALE coverage that is 4% each month for up to three months, how would the ALE be reported?

A: Report exposure based on 12%.

Q: If the ALE expense coverage on a Dwelling Form 2 or 3 is listed under the Other Coverages section of the policy form, is the exposure for this coverage reportable?

A: Yes.

Q: Our company allows a policyholder to select increased coverage on certain personal property (i.e. guns). However, these coverages are not scheduled personal property. The company considers the coverage as an increase in the Coverage C limit. The company also writes ALE coverage for a time period rather than a specific dollar limit.

Should the company include the increased coverages in the Coverage C limit when calculating the amount of ALE to report?

A: Yes.

Q: Our company writes a condominium unit owners policy with an endorsement for coverage for rental to others. Should ALE be reported for the policy?

A: It depends. If the unit is entirely rented to others, then the coverage on the policy would be for fair rental value and would not be reported to the FHCF. If the owner seasonally occupies the unit as a primary or secondary residence, then the company could argue that ALE could be paid out to the owner.

Q: If a condominium insured under a condominium unit owners policy is seasonally occupied, should ALE be reported?

A: If the condominium unit is used as a primary or secondary residence, yes. If not, then no exposure for this policy should be reported.

Q: Our company writes a condominium unit owners policy that provides betterment and improvements coverage or "four-walls" coverage (considered by our company to be structural coverage) and ALE coverage, but no coverage for Contents. Is the ALE coverage reportable to the FHCF?

A: Yes. However, the exposure should not exceed 40% of the structural coverage.

Assumption Agreements with Citizens Property Insurance Corporation

Q: My company is planning an assumption on May 25th from Citizens Property Insurance Corporation. If an assumed policy has not renewed onto my company's books at June 30th and it is subsequently "untagged" because the policyholder wants to remain with Citizens, will I be required to resubmit my company's data to exclude that policy?

A: No. A resubmission would not be required for this reason alone because the FHCF considers June 30th as the cut-off date for whether an assumed policy is required to be reported by a company. The status of the policy at June 30th determines whether the policy is reportable by your company.

Q: Once my company completes an assumption of covered policies from Citizens Property Insurance Corporation and several of the policies are untagged after June 30th, should my company report the policies to the FHCF as assumed policies?

A: Yes. If the policies were assumed on June 30th and the untagging occurred after that date, the policies are reportable by your company.

Q: If my company selected policies for a July 19th assumption of covered policies from Citizens Property Insurance Corporation before June 30th, meaning the actual assumption date is July 19th, can my company report the policies selected as our exposure on June 30th?

A: No. The FHCF does not recognize the selected policies as exposure of your company until after the assumption date.

Blanket Deductible

Q: Is a per occurrence deductible considered a blanket deductible?

A: Yes, as long as it is a per occurrence deductible that applies once to all locations.

Building Code Effectiveness Grading (BCEG)

Q: What if our company doesn't capture the BCEG credit?

A: If a BCEG credit is not given to the policyholder, enter all zeros for this field and no credit will be given. However, if a BCEG credit is given to the policyholder, you must capture and report the BCEG code to the FHCF. Report your actual "community graded" BCEG code (01 – 10). If the BCEG code is "Ungraded" or "Non-Participating," enter "00."

Building Additions and Alterations

Q: Our company issues a renters policy with Coverage C limit of $50,000. The policy includes additional coverage written within the policy form for building additions and alterations of 10% of the Coverage C limit. A policyholder has purchased an endorsement to increase the building additions and alterations coverage to 25% of the Coverage C limit. How much exposure should be reported to the FHCF for this policy?

A: The amount of building additions and alterations coverage in excess of that provided within the policy form, prior to the purchase of the endorsement, would be reportable. In this case, the additional 15% ($7,500) of the Coverage C limit for building additions and alterations coverage is reportable, for a total of $57,500 of exposure to be reported.

Churches

Q: If a church and the adjacent parsonage are covered on a commercial policy, should the parsonage be reported as a "Commercial" or "Residential" type of business?

A: If it is a two, three, or four-family dwelling, it should be reported with a FHCF type of business based on how your company rates the dwelling (either Residential or Commercial FHCF type of business). Dwellings housing more than four families should be reported as FHCF type of business Commercial (code "1").

Commercial Class Codes

Q: If our company insures a single structure with a mix of commercial habitational and commercial non-habitational exposure and multiple class codes are applied to the structure, how would our company determine the predominant class for the structure?

A: Your company may have to use another factor, such as square footage or number of floors, to determine the predominant use of the structure.

Commercial Policy: Single Structure with a Combination of Habitational and Non-habitational Exposure

Q: If a single structure is used for both habitational and non-habitational purposes and the policy provides blanket or non-divisible coverage for that structure, how should our company report exposure to the FHCF?

A: If the structure has a commercial-residential class code (based on a classification plan submitted to, and reviewed by, the FHCF Administrator), report the entire exposure for the structure to the FHCF. If the structure has a commercial non-residential class code, please review Commercial-Habitational reporting clarification #7 in the 2007 Data Call for instructions.

Q: If our company insures a single structure with a combination of habitational and non-habitational exposure and the policy is classed using a commercial-residential class code, can our company carve out and not report the commercial non-habitational portion of the structure?

A: No. Your company is required to report the entire structure because the non-habitational portion of the policy should be minimal to the total policy coverage.

Commercial Policy: Commercial Habitational Clarifications

Q: If our company has a commercial-residential policy with several primary dwellings located in different ZIP Codes, and each dwelling has its own miscellaneous commercial structures, with which primary dwelling should the miscellaneous structures be reported?

A: They should be reported with the primary dwelling to which they are related.

Q: If our company has a commercial-habitational policy with several primary dwellings located in the same ZIP Code with common miscellaneous commercial structures, but each primary dwelling has a different construction code, with which primary dwelling should the miscellaneous commercial structures be reported?

A: The miscellaneous structures can be reported with the primary dwelling structure(s) your company deems most appropriate.

Q: Our company has a commercial-residential policy with a variety of risks that would normally fall under multiple FHCF types of business. These risks have different ZIP Codes so separate records would be required to be reported. Can these records be reported using the FHCF type of business "Commercial" Code 1?

A: Yes, if the predominate FHCF type of business is commercial (note that commercial policies covering farms are required to be reported under a FHCF type of business Residential [code "2"]). See Commercial-Habitational Reporting Clarification #3 in the 2007 Data Call.

Commercial Policy: Multiple Structures with a Combination of Habitational and Non-Habitational Exposure

Q: If a commercial policy covers multiple structures, where the primary structures are a combination of individual habitational and individual non-habitational structures, and each structure has an individual deductible, which structures should our company report to the FHCF?

A: Your company must report only the habitational structure(s) and any other structure used in relation to the habitational structure(s). "Used in relation to" is defined as any structure that is used solely by the occupants (or their guests) of the habitational structure. If your company is unable to determine whether or not a non-habitational structure meets this requirement, do not include any of the exposure for that structure.

Q: What if, in the preceding case, the policy has an indivisible aggregate deductible. How should our company report deductibles?

A: Report each covered risk/building/exposure with the full blanket deductible amount.

Commercial Policy: Multiple Location Policy with Non-Florida Risk (Non-Excess)

Q: Our company writes a commercial package policy covering habitational exposures located in several states. The policy is written with a blanket limit. How should the risks located in Florida be reported?

A: Report the lesser of the full policy limit or the full wind exposure value for each Florida habitational risk/building/exposure. A copy of the Statement of Values to support the policy exposure reported must be retained for the SBA to confirm reporting during examination.

Commercial Policy: Mix of Commercial Habitational & Non-Habitational Structures

Q: Our company writes a commercial policy covering a retirement community with a beauty salon and recreation center. Should the beauty salon and recreation center be reported?

A: It depends. If the beauty salon and recreation center are used in relation to the habitational structures, yes. "Used in relation to" is defined as any structure that is used solely by the occupants (or their guests) of the habitational structure. If a structure is not used in relation to the habitational structures or you are unable to make this determination, do no report the exposure for the structure. Also, refer to the 2007 Data Call Reporting Clarifications if a blanket deductible or blanket limit applies.

Commercial Policy: Variety of Risks

Q: How do you determine the predominant type of business on the policy?

A: The predominant type of business is the FHCF type of business under which the most FHCF exposure falls.

Condominium Unit Owners

Q: If a commercial policy covers a condominium complex, should our company report exposure for that policy as FHCF type of business Condominium Unit Owners (code "6")?

A: The FHCF type of business Condominium Unit Owners refers to an individual condominium unit owner. If a commercial policy covers a 10-story, 100 unit condominium complex, for example, such exposure should be reported as FHCF type of business Commercial (code "1").

Q: If a commercial policy covers an individual condominium unit owner (1 single unit of a 100 unit complex) that is used as a primary or secondary residence, which type of business should be reported to the FHCF?

A: This individual condominium unit should be reported as FHCF type of business Condominium Unit Owners (code "6").

Q: If an individual condominium unit owner (1 single unit of a 100 unit complex) uses the condominium as a primary or secondary residence, but has the option to rent out or lease the property, should the exposure be reported as FHCF type of business Condominium Unit Owners (code "6"), Tenants (code "4"), or Commercial (code "1")?

A: This individual condominium unit should be reported as FHCF type of business Condominium Unit Owners (code "6").

Q: If an individual condominium unit owner (1 single unit of a 100 unit complex) does not use the condominium as a primary or secondary residence and rents or leases the unit out to an individual(s) that also does not use the unit as a primary or secondary residence, which type of business should be reported to the FHCF for the individual condominium unit owner?

A: This exposure would not be reportable to the FHCF as it is not a primary or secondary residence.

Construction

Q: If mobile homes are tracked by the year built instead of the day built, how should the constructions be coded for fully tied down mobile homes?

A: Fully tied down mobile homes built in 1994 or earlier should be coded "21." Fully tied down mobile homes built after 1994 or those documented to be in compliance with ANSI/ASCE 7-88 should be coded "22."

Q: Could there be mobile homes built before 7/13/94 coded as construction "22?"

A: Yes. If mobile homes built prior to 7/13/94 are documented to be in compliance with ANSI/ASCE 7-88, they can be coded "22."

Q: Can our company use the default construction code for policies in which the construction is unknown?

A: No. Your company can only use the default construction code if you capture the construction code and the aggregate exposure of your entire book of business is less than $50 million.

Q: If our company uses the default construction code “26” for its mobile home policies, are we required to use a default construction code “12” for our residential homeowners policies?

A: Yes, unless the construction code for the residential homeowners policies is unknown then an “Unknown” FHCF construction code (code “11”) would be reported.

Q: What if our company meets the requirements for reporting the default construction code for its covered residential homeowners policies and mobile homeowners policies. Can our company report the default construction code for the residential homeowners policies and the actual construction code for mobile homeowners policies?

A: No. All policies must be reported using either the default construction code or the actual construction codes.

Contents-Only Policies

Q: If our company only insures the contents of a home that is owner occupied and coverage is provided for ALE, under which type of business should the policy be reported?

A: If the exposure is related to another policy (i.e. the policy for the dwelling), it should be reported as the FHCF type of business it is associated with. If the exposure is not associated with another policy, it should be reported as FHCF type of business Tenants (code “4”).

Q: Exposure formerly reported as type of business “7” (Other Contents Policies or Endorsements) would be reported as the FHCF type of business it is associated with unless the exposure is not associated with another policy or it is mobile home related property. How should exposure be reported if the associated policy excludes wind/hurricane coverage?

A: Report using the type of business of the policy with which the exposure is associated.

Q: Should exposure formerly reported as type of business “7” (Other Contents Policies or Endorsements) be reported as a separate record or included with the Total Insured Value-Contents field of the associated policy record?

A: It may be reported as a separate record or included with the Total Insured Value-Contents field of the associated policy record. However, the method chosen must be applied consistently within an FHCF type of business.

Q: Exposure formerly reported as type of business “7” (Other Contents Policies or Endorsements) may be reported as a separate record or included with the Total Insured Value-Contents field of the associated policy. If we report it as a separate record, should we report a risk count of zero or one?
A: It depends. If such exposure has its own separate deductible, then one risk should be reported. If such exposure does not have its own separate deductible, then a zero risk count should be reported for the separate record.

Deductibles
Q: What if a policy covering multiple commercial habitational risks has an indivisible aggregate deductible (blanket deductible); how should our company report deductibles?
A: Report each risk/building/exposure with the full blanket deductible amount.

Q: How should our company report the deductible for a policy written with a percentage deductible and a minimum dollar deductible?
A: Report the percentage deductible.

Q: How should our company report the deductible for a stand-alone inland marine policy when multiple risks are covered under the policy with different deductibles applicable to each risk?
A: Your company can report each risk separately with its own deductible code or General Clarification #4 in the 2007 Data Call allows the option of reporting the risks under one record using the deductible applicable to the most exposure. Whichever option your company chooses, it must be applied consistently across the non-commercial book of business.

Farmowners
Q: A farmowners policy may have several coverages that relate to residential structures covered under the policy. What coverages are required to be reported for the residential structure?
A: Only coverages for the dwelling, other private structures appurtenant to dwellings, household personal property, additional living expense, and any increases to those coverages, should be reported.

Q: If a farmowners policy covers both residential and mobile home structures under the same policy, can both risks be reported under the "Residential” type of business?
A: No. The mobile home risk is required to be reported as FHCF type of business Mobile Home (code “3”).

Q: Are residential structures on a commercial farm covered under a commercial package policy required to be reported as a “Residential” type of business?
A: Yes. Typically, the covered risks have a residential construction rather than a commercial construction. If the company can justify that the construction is commercial, then the FHCF may allow the company to report as FHCF type of business Commercial (code “1”).

As noted above, any mobile home exposure must be reported as FHCF type of business Mobile Home (code “3”).

Q: If our company writes farmowners policies or commercial policies covering farmowners risk, can we report exposure covering a variety of risks using the predominant type of business?
A: No. The Commercial-Habitational Clarification regarding commercial policies that cover a variety of risks does not apply to farm coverage.

Florida Building Code Indicator

Q: Our company has made a policy decision to consider any residential dwelling constructed in 2002 or later as meeting the Florida Building Code standard effective March 1, 2002. Is it okay to report such risks to the FHCF as “Meets 2002 Florida Building Code” (code”1”)?
A: Yes.

Q: How should our company report the Florida Building Code Indicator for mobile homes?
A: The FHCF would expect companies to report a code “9” for unknown.

Guaranteed Replacement Cost Endorsement

Q: If our company offers an endorsement that increases the replacement cost coverage provided within the policy form, should the increase in exposure be reported?
A: Additional exposure should be reported only if the endorsement increases the specified dollar limit independent of the actual cost of damage at the time of loss. For example, if the endorsement increases the stated policy limit from $200,000 to $220,000, the additional $20,000 would be reportable. If, on the other hand, the change in coverage/limit under the endorsement is dependant on the actual cost of damage at the time of loss, additional exposure would not be reportable.

Law & Ordinance

Q: How should our company report exposure for Law and Ordinance coverage?
A: Under no circumstances (beginning with the 2006 Data Call) should exposure for Law and Ordinance coverage be reported. Note, however, that the FHCF would still reimburse for losses under this coverage.

Loss Assessment

Q: If our company writes a condominium unit owners policy with $1,000 loss assessment coverage provided within the policy form, can our company report this coverage?
A: Yes. However, if your company did not report the coverage provided within the policy form, it will not be considered an error. The Data Call language allows it to be reported either way.

Q: What if in the example above, our company inconsistently reported the coverage, is it considered an error?
A: No.

Roof Shape, Roof-Wall Connection, Roof-Deck Attachment

Q: How should our company report these three mitigation fields for mobile homes?

A: Generally, the FHCF would expect the Unknown code applicable to each field to be reported for mobile home exposure. However, if the company does track any of this information, please report it as appropriate.

Roof Shape

Q: How should we report roof shape if one building has a combination of shapes?

A: Roof shape should be determined by using the type of structure that exceeds 50% of the roof surface. For example, any individual exterior wall with a gable end exceeding 50% of the width of the exterior wall shall be classified as "Gable or Other" roof shape.

Roof-Wall Connection

Q: Our company does not collect roof-wall connection information, but we do capture whether a dwelling is compliant with the Florida Building Code effective March 1, 2002. If we know the Code specifies a minimum roof-wall connection for a particular risk (geographic location) and that specification matches the FHCF Roof-Wall Connection code "1"(Anchor bolts, Hurricane Ties, Clips, Single Wraps, Double Wraps, or Structurally Connected), may we report FHCF code "1"?

A: Yes.

Roof-Deck Attachment

Q: Our company does not collect roof-deck attachment information, but we do capture whether a dwelling is compliant with the Florida Building Code effective March 1, 2002. If we know the Code specifies a minimum roof-deck attachment for a particular risk (geographic location) and that specification matches the FHCF Roof-Deck Attachment code "4" (Reinforced Concrete Roof Deck), may we report FHCF code "4"?

A: Yes.

Scheduled Personal Property Endorsements

Q: A Residential Homeowners policy is written with an endorsement to cover scheduled personal property. However, the endorsement has a different deductible from the homeowners policy. Our company has opted to report the endorsement as a separate record from the primary policy. When reporting the endorsement, are we required to report the deductible applicable to the endorsement?

A: No. Your company can report the deductible applicable to the endorsement or the primary policy, just as if you were including the homeowners and scheduled personal property under one record. However, whichever option your company chooses must be applied consistently within each FHCF type of business.

Q: Our company writes endorsements for scheduled personal property and the BCEG credit applicable to the primary policy does not apply to the endorsements. In this instance, are we required to report an endorsement as a separate record without the BCEG code?

A: No. Your company has the option of reporting the endorsement with the primary policy or as a separate record. Also, the endorsement can be reported with a BCEG code of "00" or with the code applicable to the primary policy.

Q: Our company writes a scheduled personal property endorsement to a Residential Homeowners policy that is written ex-wind yet the endorsement is not ex-wind, can the endorsement be reported using FHCF type of business Residential (code “2”)?
A: Yes. The Data Call instructions require the endorsement be reported using the type of business for the policy the endorsement is associated with.

Q: As a follow up to the question above, can our company report the rating factors of the primary ex-wind policy when reporting the endorsement?
A: Yes.

Q: Our company writes scheduled personal property endorsements to ex-wind policies and policies that provide wind coverage. The endorsements to ex-wind policies are reported with an FHCF construction code 11 “Unknown”, which is not the construction code for the primary policy. However, the endorsements to the policies that provide wind coverage are reported with the construction code for the primary policy. Would this be considered an inconsistent application of the rating factors?
A: Yes, <u>if it occurs within an FHCF type of business</u>. Your company should make a decision to either report the construction code of the primary policy or the construction code of the endorsement and apply this consistently <u>within an FHCF type of business.</u>

Q: An endorsement was reported with the construction code for the primary policy and a deductible code “RM”, the deductible applicable to the endorsement. Is this considered an inconsistent application of the rating factors when the inconsistency occurs within a single endorsement?
A: No.

Stand Alone Inland Marine

Q: Our company writes a stand alone inland marine policy that can be associated with a Residential Homeowners policy. Can the inland marine policy be reported using FHCF type of business Residential (code “2”)?
A: Yes.

Q: As a follow up to the question above, can our company report the rating factors of the primary policy?
A: Yes. Your company has the option of reporting the rating factors of the primary policy or the inland marine policy as long as the option is applied consistently within a type of business.

Structure Opening Protection

Q: Our company collects shutter information, but is unable to determine if the shutters are basic (FHCF code “1”) or hurricane/engineered shutters or Florida Building Code (FBC) equivalent (FHCF code “2”). Which FHCF code should we report?
A: Your company should report code “1” (Basic Shutters).

Tenant Policies

Q: Our company covers the owner’s property for a tenant occupied structure. Should the exposure be reported under the ”Tenants” type of business?

A: No. The FHCF type of business Tenants (code “4”) is intended for non-owner occupied types of coverage. The exposure should be reported as applicable under the Commercial, Residential, Mobile Home, or Condominium Unit Owners type of business. Only the tenant’s contents coverage is reported under the Tenants type of business.

Q: Our company writes a policy covering a tenant that rents a mobile home. How should the policy be reported?
A: The Tenants type of business is not applicable to any covered mobile home exposure. The policy should be reported using FHCF type of business Mobile Home (code “3”).

Type of Business
Q: If our company insures a boarding or rooming house, which type of business should it be reported under assuming it is a primary or secondary residence?
A: Your company should report the risk under the type of business it considers the risk written, commercial or residential.

ZIP Code to County Code Matches
Q: The preliminary validation software indicates that our company’s data has an invalid ZIP Code to county code match. The United States Postal Service website indicates that the county code associated with the ZIP Code is correct. What should our company do?
A: The FHCF realizes there are some ZIP Codes that cross over more than one county and has programmed the software to accept any county that immediately borders the county in which the FHCF considers a ZIP Code to reside in. However, in rare cases the Postal Service has indicated a ZIP Code to be applicable not only to the bordering county, but to the next county over as well. If such records cause the company to fail the software, and as long as there are no other errors in your data causing it to fail, submit the data to the FHCF Administrator with documentation from the United States Postal Service that indicates your ZIP Code and county code match. Also retain the documentation for the SBA audit.

SBA Examination – Exposure Reporting

Examination File
Q: Is our company required to report the insured’s name on the exam file?
A: No.

Q: Does my company need to send the SBA’s exam file to Paragon?
A: No. **Retain** this file for your records. **Do not** send the exam file to Paragon.

Q: How long is our company required to retain the exam file?
A: The exam file must be retained until the SBA has completed its examination of your company’s exposure submission and claims reports.

Exit Conference
Q: Can our company request an exit conference with the SBA to discuss the exam findings?
A: Yes. This request should be sent to the SBA and a mutual time will be scheduled.

Resubmissions

Q: Will our company incur any penalties if it is discovered through an exposure examination that we have reported data incorrectly?

A: If data was reported incorrectly, your company may be required to resubmit its Data Call file and there will be a $1,000 resubmission fee for each resubmission. Also, if your company received loss reimbursements for the same Contract Year, the Data Call resubmission may result in an excess reimbursement(s) having to be repaid to the FHCF.

Loss Reporting

FHCF Interim Loss Report

Q: What is the purpose of the Interim Loss Report?

A: The Interim Loss Report provides the FHCF with information to determine its potential liability, and if necessary, the likely timing requirements for asset liquidation and revenue bond issuance.

FHCF Proof of Loss Report (POL)

Q: When is our company required to submit a POL to the FHCF?

A: If the FHCF notifies its member companies that they are required to submit POL reports to the FHCF, the first mandatory filing is due by December 31 of the FHCF Contract Year (20XX) in which the hurricane occurred. Quarterly thereafter:

- A POL is due on **3/31/XX** from any company whose losses reach or exceed 50% of its FHCF retention.
- A POL is due on **6/30/XX** from any company whose losses reach or exceed 75% of its FHCF retention.
- A POL is due on **9/30/XX** from any company which anticipates that its losses will reach or exceed 100% of its FHCF retention.
- A POL is due from a company by **each subsequent quarter-end** until the earlier of the date on which the company has paid its policyholders in full or the FHCF commutation clause (See Article X of the Reimbursement Contract) takes effect.

A company may, at any time, voluntarily submit a POL for reimbursement.

Q: Why is SECTION II of the POL optional?

A: The information provided under SECTIONS I and III is all that is necessary for the FHCF to process a company's reimbursement request. The FHCF has kept SECTION II as an optional portion of the POL, as this information may be helpful to your company in understanding the reimbursement process and the calculations performed by the FHCF.

Q: When completing the POL, should losses reported be cumulative or just for the period reported?

A: The losses reported should be cumulative.

Q: Is there a different loss report to submit when requesting reimbursement under Addendum No. 1 (Additional Coverage Option up to $10 million), Addendum No. 2 (Temporary

Emergency Options for Additional Coverage) or Addendum No. 3 (Temporary Increase in Coverage Limit Options)?

A: No. All reimbursements will be issued based on losses reported under the standard POL report.

Commutation Clause

Q: When does the FHCF commutation clause take effect?

A: Not less than 36 months or more than 60 months after the end of the FHCF Contract Year in which the hurricane took place.

Q: Our company is still in the process of responding to the findings of an FHCF exposure examination. Can our losses still be commuted?

A: No. The SBA must have completed and closed your exposure and loss examination files prior to the commutation of your losses for that particular Contract Year.

Q: Can our company initiate the commutation process, or will the FHCF notify us when the process should begin?

A: Once the SBA has closed your exposure and loss examination files for the applicable Contract Year, the FHCF will initiate the discussion of commuting losses.

Loss Assessment

Q: If an insured incurs a claim for loss assessment that was a result of hurricane damage that occurred before the effective date of the insured's policy, can our company report the claim for reimbursement from the FHCF?

A: No, since the policy was not in effect on the date of loss for the event.

Q: An insured has a claim for loss assessment that our company has determined was a result of a hurricane. However, multiple events occurred during the season and we cannot determine which event caused the damage. For which event should the loss be reported to the FHCF?

A: Your company should establish a reasonable method for determining the applicable event and apply the method consistently. The FHCF will review this methodology during an exam for reasonableness. It would seem reasonable for the company to verify that the ZIP code where the loss occurred is in the path of the event for which it is reported to the FHCF.

Loss of Rents

Q: If an insured's home sustains damage from a hurricane that renders it uninhabitable and the insured decides to move into a rental house he owns that is currently not occupied by tenants, can our company receive reimbursement from the FHCF for the loss of rental income from the rental house?

A: No, loss of rental income is not covered by the FHCF.

Multiple Events

Q: If there are multiple hurricanes during an FHCF Contract Year, should losses from each event be reported on separate POLs?

A: Yes.

Reimbursements

Q: Under what conditions would our company have to return reimbursements to the FHCF?

A: The FHCF Reimbursement Contract addresses the right of the SBA to seek the return of "excess loss reimbursements or advances". Such excess amounts could result from a variety of issues, such as:

- An incorrect exposure submission or resubmission (resubmitted data results in a change to a company's premium, retention, and maximum reimbursement);
- An incorrect POL (over-reported losses);
- Incorrect calculation of reinsurance recoveries (over-reported losses);
- Subsequent readjustment of policyholder claims, including subrogation and salvage (subsequent POL indicates a company is eligible for reimbursements at a level less than what has already been reimbursed);
- Incorrect calculations of reimbursement premiums or retentions (on the part of the FHCF); or
- Payments in excess of the project payout (on the part of the FHCF).

Q: In the event of an excess loss reimbursement or advance, will our company be penalized?

A: Interest will be charged on excess loss reimbursements based on the average rate earned by the SBA for the FHCF for the first five months of the applicable FHCF contract year. If the excess loss reimbursement is due to incorrect information provided by a company, interest will accrue at this rate plus 5%. Interest on advances, including excess advances, will be charged the prime rate as published in the Wall Street Journal on the first business day of the Contract Year (adjusted annually).

Q: We understand that the FHCF performs some "reasonableness" checks on POL filings prior to issuing reimbursements. What kind of errors have been detected in the past during this review?

A: On occasion, the checks have identified errors with a company's exposure submission under the Data Call. However, more often, errors are related to incorrectly reported losses such as:

- Florida hurricane losses under policies not covered by the FHCF (commercial non-residential, auto, ex-wind, etc.);
- Florida hurricane losses under covered policies that aren't covered by the FHCF (e.g. storm surge, but no wind damage; loss of rents on an apartment building);
- Residential losses in other states (e.g. Florida hurricane causes damage in Georgia as well);
- Non-hurricane losses occurring elsewhere in Florida within the same timeframe as a hurricane (e.g. hurricane damage in southern Florida, fire damage in Tallahassee); and
- Wind losses in another state (e.g. Texas wind loss) occurring within the same timeframe as Florida hurricane.

Retention

Q: How do I calculate our company's retention for the mandatory FHCF coverage?

A: Your company's retention is equal to its FHCF premium for the Contract Year in which the hurricane occurred times the applicable FHCF Retention Multiple (based on the coverage level elected by your company for the same Contract Year).

Your company's final FHCF premium, assuming that your company has submitted timely, complete, and accurate exposure data as outlined in the Data Call applicable to the Contract Year in which the hurricane occurred, is mailed to your company no later than November 15th of each Contract Year. A listing of finalized premiums and selected coverage levels is also posted on-line at www.sbafla.com/fhcf under "Insurer Information" typically in early December. If your company plans to submit a Proof of Loss Report prior to the November billing, and your company has already sent in its Data Call submission, contact the FHCF Administrator at 800-689-3863 for information regarding your company's FHCF premium calculation.

Ultimate Net Losses

Q: What is the definition of Ultimate Net Losses?

A: As defined in the FHCF Reimbursement Contract, this term means a company's losses under FHCF Covered Policies for a specific hurricane (1) prior to the application of the company's FHCF retention and reimbursement percentage; (2) excluding loss adjustment expenses; and (3) net of salvages and all other recoveries, excluding reinsurance recoveries.

Q: Are Ultimate Net Losses net of our company's policy deductibles?

A: Yes. As your company would net a policyholder's $500 wind deductible against any claims payment(s) made to that policyholder, that $500 is not a loss to your company and should not be reported to the FHCF as Ultimate Net Losses.

SBA Examination – Loss Reporting

Q: I know the SBA will likely examine our company's loss reports after we have received reimbursements. What kind of initial data quality checks will be performed?

A: The FHCF's Administrator will check reported loss data to determine:

- If company's reported losses exceed its reported exposure in the affected counties;
- Whether your company has reported a low concentration of exposure in the affected counties; and
- Whether the Ultimate Net Loss as a percentage of exposure in affected counties is significantly higher than the average FHCF percentage.

Abnormalities noted by these checks indicate possible issues with the reported loss data and will require an explanation/verification from the company prior to issuance of any FHCF reimbursements.

Q: What type of records must my company retain for loss reimbursement examinations?

A: Refer to the POL Report available on-line at www.sbafla.com/fhcf under “FHCF Rules” – “Proposed Rules”, or under “Insurer Information” – “Current Year” once the form is adopted, for a list of items required to be retained.

Q: On the Detailed Claims Listing, is our company required to break out the paid losses for an individual claim by building, appurtenant structures, contents, and additional living expenses?
A: Yes. However, your company is not required to break out the outstanding losses to this level of detail.

Q: In the Detailed Claims Listing retained by our company to support the POL Report submitted to the FHCF, is it okay for our company to report the date of a loss as the date of the assessment?
A: Yes.

Q: How long is our company required to retain the Detailed Claims Listing to support the POL?
A: The Detailed Claims Listing must be retained until the SBA has completed its examination of your company’s claims.

Q: Will my company incur any penalties if it is discovered through an exam that we have reported loss data incorrectly?
A: If loss data is reported incorrectly, your company may be required to submit a new POL depending on the significance of the errors If, as a result of the corrected loss data, your company owes previously reimbursed funds back to the FHCF, interest will be charged on the over-reimbursement.

Q: Can our company request an exit conference with the SBA to discuss the loss reimbursement exam findings?
A: Yes. This request should be sent to the SBA and a mutual time will be scheduled.

INFORMATION ONLINE

The FHCF is dedicated to making information pertaining to the FHCF as readily available as possible. As illustrated throughout this Handbook, the FHCF has posted a considerable amount of information on the Internet through both the SBA's FHCF website (www.sbafla.com/fhcf) and Paragon's FHCF website (www.paragonbenfield.com/fhcf). The following are sample documents/information available online:

- Annual Report
- Bonding Estimates
- Calendar
- Contact Request Form (Insurer Contacts)
- Coverage Selections & Premium Calculations
- Data Call
- Emergency Assessments
- Examination Information
- Frequently Asked Questions
- Link: FEMA
- Link: Florida Administrative Weekly
- Link: Florida Office of Insurance Regulation
- Link: Online Sunshine
- Loss Reimbursement Preparedness Program
- Loss Reports
- Member Handbook
- Projected Payout Multiple
- Ratemaking Formula Report and Addenda, as applicable
- Rates and Retention Multiples
- Reimbursement Contract and Addenda, as applicable
- Rule 19-8.010: Reimbursement Contract
- Rule 19-8.012: Ineligibility/Exemption from the FHCF
- Rule 19-8.013: Revenue Bonds
- Rule 19-8.028: Reimbursement Premium Formula
- Rule 19-8.029: Insurer Reporting Requirements
- Rule 19-8.030: Insurer Responsibilities
- Rules: Current and Previous Contract Years
- Section 215.555, Florida Statutes
- ZIP Codes, County Codes, & Rating Regions

SUMMARY

While this Handbook summarizes the key features of the FHCF based on current legislation, please note that the FHCF may be affected by changes to the legislation, as well as ongoing changes to the rules of the SBA. We would encourage companies to review current legislation and any rules applicable to issues affecting them.

Individuals listed in the directory on the next page may be contacted with specific questions about the FHCF.

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