



## OFFICE OF INSURANCE REGULATION

**KEVIN M. MCCARTY**  
COMMISSIONER

May 9, 2006

The Honorable Tom Gallagher  
The Chief Financial Officer  
Department of Financial Services  
The Capitol, PL-11  
Tallahassee, FL 32399

**FINANCIAL SERVICES  
COMMISSION**

**JEB BUSH**  
GOVERNOR

**TOM GALLAGHER**  
CHIEF FINANCIAL OFFICER

**CHARLIE CRIST**  
ATTORNEY GENERAL

**CHARLES BRONSON**  
COMMISSIONER OF  
AGRICULTURE

Dear Chief Financial Officer Gallagher:

This is to inform you that grounds exist, pursuant to Section 631.061, Florida Statutes, to place Florida Preferred Property Insurance Company (Florida Preferred) in receivership for purposes of liquidation and to request that your Division of Rehabilitation and Liquidation petition the Circuit Court for appointment as receiver as soon as possible. While the directors and sole shareholder of Florida Preferred have consented to an order of rehabilitation, which was to be effective on June 1, 2006, they have not consented to this action.

In March 2006, Florida Preferred filed its annual financial statement as of December 31, 2005, with the Office, reporting surplus of \$5,905,488 and loss and loss adjustment expense reserves of \$6,151,412. The Office has determined that Florida Preferred's loss and loss adjustment expense reserves fall with a range of \$12.8 million and \$33.9 million, with a best estimate of \$22.3 million. Based on these estimates, as of December 31, 2005, Florida Preferred was insolvent by as little as \$0.8 million or as much as \$21.8 million.

The prospects of infusion of additional capital or further removal of sufficient risk from Florida Preferred to make it viable are not optimistic at this point.

Further, Florida Preferred has not yet shown that it has secured adequate catastrophe reinsurance for the 2006 Hurricane Season, which starts in a few short weeks. Because the reinsurance market is tight and companies may be contracting their participation in the homeowners insurance market, the policyholders and their agents may experience significant obstacles in finding replacement coverage. Therefore, we anticipate that many of them will go to Citizens Property Insurance Corporation (Citizens) for coverage

• • •

KEVIN M. MCCARTY • COMMISSIONER  
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0305 • (850) 413-5914 • FAX (850) 488-3334  
WEBSITE: WWW.FLDFS.COM • EMAIL: KEVIN.MCCARTY@FLDFS.COM

Affirmative Action / Equal Opportunity Employer

whenever their policies expire or are cancelled. In an effort to avoid overwhelming Citizens with the task of re-writing thousands of additional policies, a multi-step process including the liquidation of Florida Preferred will be necessary.

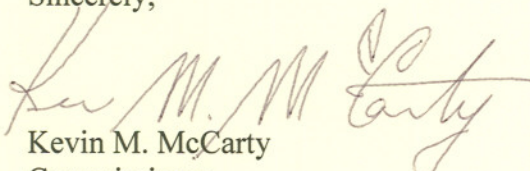
The plan outlined in our earlier correspondence continues to be the recommended plan after consultation with Citizens to further the goal of providing an orderly transition of policyholders from the Poe Financial Group companies and to avoid any unnecessary disruption of coverage for these policyholders.

1. Policies need to be in effect as of June 30, 2006, to enable the companies to take maximum benefits under their quota share reinsurance arrangements.
2. After July 1, 2006, as the policies reach their anniversary dates, Citizens will offer new coverage to those policyholders who are unable to obtain coverage in the voluntary market.
3. On June 1, 2006, a previously-executed consent to place Florida Preferred in receivership for purposes of rehabilitation will become effective. Florida Preferred has filed financial statements indicating a risk based capital ratio that does not comply with statutory requirements, but it has not reported an impairment of its capital and surplus. If Florida Preferred cannot obtain reinsurance, its policies will need to be cancelled with the same effective date as the others, by July 1, because its quota-share reinsurance will expire on June 30, 2006. Therefore, we anticipate that unless new capital is found by its shareholder, it may be necessary to liquidate Florida Preferred on June 2, 2006, to ensure that policyholders are not left without adequate coverage during the hurricane season.

Under this plan, no policyholder should experience a lapse in coverage and the guaranty fund will be triggered for the payment of claims as necessary.

Therefore, I recommend that you authorize the Division of Rehabilitation and Liquidation to petition the Court to place Florida Preferred Property Insurance Company in receivership for purposes of liquidation and take further actions consistent with this plan as necessary.

Sincerely,

  
Kevin M. McCarty  
Commissioner