

**DISSOLUTION REPORT**  
**OF**  
**FRANKLIN HOMEOWNERS ASSURANCE COMPANY**  
**AS OF**  
**MAY 31, 2016**  
**NAIC CODE 10680**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached DISSOLUTION REPORT OF EXAMINATION, made as of May 31, 2016 of the

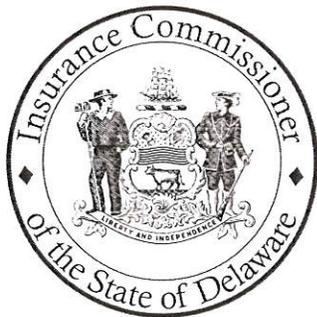
**FRANKLIN HOMEOWNERS ASSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By:

A handwritten signature in black ink, appearing to be "K. Stewart", written over a horizontal line.

Date: July 21, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 21st day of July, 2016.

A handwritten signature in black ink, appearing to be "K. Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

DISSOLUTION REPORT OF EXAMINATION  
OF THE  
FRANKLIN HOMEOWNERS ASSURANCE COMPANY  
AS OF  
MAY 31, 2016

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 21st day of July, 2016

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## **SALUTATION**

July 15, 2016

The Honorable Karen Weldin Stewart, CIR-ML  
Insurance Commissioner  
State of Delaware  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19901

Dear Commissioner:

In compliance with your instructions in Certificate of Authority 16.910, a Dissolution Examination has been made of the affairs, financial condition and management of the

### **FRANKLIN HOMEOWNERS ASSURANCE COMPANY**

hereinafter referred to as “FHO” or “Company”, incorporated under the laws of the State of Delaware with its home office located at 120 East Uwchlan Avenue, Suite 101, Exton, PA 19341.

The report of such review is respectfully submitted herewith.

## **SCOPE OF EXAMINATION**

This Dissolution Report is a limited-scope examination, and is not intended to communicate all matters of importance for an understanding of the Company’s financial condition.

The last examination was as of December 31, 2012. This dissolution examination is as of May 31, 2016.

As a result of a management decision, the Company is to be dissolved. Therefore, this examination was to ascertain the following:

- Verify the remaining investment/cash assets of the Company and determine any operating receivables that may exist.
- Ascertain and verify that there are no material liabilities other than residual general operating expenses.
- Review any other documents as needed.

## **HISTORY**

FHO was incorporated in October 30, 1996, licensed by the Pennsylvania Department of Insurance (PA-DOI) on April 24, 1997, and commenced business that same day. FHO is a property casualty insurance company that re-domesticated to the State of Delaware. In connection with the re-domestication, FHO obtained a new Certificate of Incorporation on January 19, 2012, issued by the State of Delaware. FHO is licensed to write business in Delaware and Pennsylvania.

The Company received a Certificate of Authority on March 20, 2012, from the Delaware Department of Insurance (DE-DOI) and is authorized to transact the business of Property, Marine and Transportation, Casualty, including: Vehicle, Burglary and Theft, Personal Property Floater, Glass, Boiler and Machinery, Elevator and Miscellaneous. In Pennsylvania, the Company is authorized to write Boiler and Machinery, Burglary and Theft, Glass, Inland Marine and Physical Damage, Other Liability, Personal Property Floater, Property and Allied Lines,

From 2004 to August 1, 2014, FHO exclusively wrote flood lines of business through the National Flood Insurance Program (NFIP) "Write Your Own" Program (WYO Program). Flood policies issued in Pennsylvania, through FHO, were issued on

FHO paper and reinsured 100% by the NFIP. FHO also facilitated the issuance of flood policies in other states through the NFIP WYO Program utilizing New Hampshire Insurance Company (NHIC), an affiliate of AIG, since NHIC was an authorized insurer licensed in all fifty states. In essence, FHO served as a managing general agent (MGA) to NHIC. For all flood business involving FHO, FHO retained National Flood Service (NFS) pursuant to a Full Service Vendor Agreement. NFS, a Federal Emergency Management Administration (FEMA) approved third-party vendor, provided all administrative and related services to FHO. NHIC also utilized NFS as its FEMA third-party vendor. Effective August 1, 2014, the administration of FHO's Flood book of business was transferred to its affiliate Franklin Flood, LLC (Franklin Flood) per the terms of a Services and Expense Agreement between the two companies.

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001 of the Delaware Insurance Code. FHO is a direct subsidiary of FHA Holding Company (FHA). The Bratic Family Insurance Trust owns 60.3% of the outstanding FHA voting shares and is considered the ultimate controlling entity of the Company. No other entity or person owns or controls greater than 10% of the outstanding FHA voting shares.

In accordance with its dissolution plan approved by the Company's Board of Directors on April 26, 2016, the Company ceased writing policies as of April 1, 2014. On April 1, 2014, the Company executed a Transition Plan, described later in this report, which transferred administration of all remaining policies of the Company to NHIC.

## **PROCEDURES PERFORMED**

Procedures performed for the period January 1, 2013, through May 31, 2016, and subsequently include:

- Review of the 2015 Annual Statement and March 31, 2016, Quarterly Statement.
- A review of the general ledger for the period January 1, 2013, through May 31, 2016.
- A review of all bank and custodian account statements as of December 31, 2015, and as of May 31, 2016.
- A review of the Board of Director and Stockholder meeting minutes of the Company from January 1, 2013, through May 31, 2016.
- A review of the related party agreements in effect.
- A review of the Transition Plan.
- A review of reinsurance agreements in effect for the years 2014 and 2015. (There were none.)
- A review of the audited financial statements for the years ended December 31, 2014, and December 31, 2015.
- A review of the Actuarial Opinion for the year ended December 31, 2015. (The Delaware Department of Insurance has exempted the Company from the actuarial opinion requirement as of December 31, 2015.)

## **SUMMARY CONCLUSIONS**

### **Corporate Records**

The examiner reviewed the Board of Director and Stockholder meeting minutes of the Company, which contained the approval of the dissolution, which is contingent upon the approval by the Delaware Department of Insurance.

### **Related Parties**

Upon approval of the dissolution by the DE-DOI, the Company intends to cancel the following related party agreements, which were still in effect as of the dissolution examination date:

*Tax Allocation Agreement*

Effective January 1, 2004, the FHO entered into a Tax Allocation Agreement with FHA and affiliates. All taxes and related fees and expenses incurred by the Parent in the course of preparing, filing and paying taxes, Federal or otherwise, shall be shared among the Affiliates of Franklin Group. Effective September 1, 2010, the agreement was amended to reflect that in the event any Affiliate fails to settle and pay taxes and/or expenses no later than 90 days after the date of filing of the consolidated return that delinquent affiliate will be assessed late fees at the interest rate of 6% per annum, calculated monthly. Effective October 1, 2012, the Company implemented a revised agreement reflecting all prior amendments and the deletion of Mutual Fire.

*Expense Agreement (Between FHA and FHO)*

Effective October 1, 2012, FHO entered into an Expense Agreement in which the Company participates in the allocation of the group's expenses with affiliates within the FHA group of companies. This 2012 agreement, which replaced a similar agreement effective January 1, 2004, incorporates the reorganization plan approved by the Delaware Department of Insurance. All settlements are settled at a minimum at the end of the third calendar quarter.

*Management Agreement (Between FHA and FHO)*

Effective January 1, 2013, FHA and affiliates entered into a Management Agreement whereby FHA provides a variety of services to FHO including but not limited to underwriting services, claims handling/loss adjusting services, insurance/reinsurance consulting services, land management services and related administrative services

necessary for the day to day operations of all companies. In addition, FHA will provide management services expertise to manage the day to day operations of the group.

*Services and Expense Agreement*

Effective August 1, 2014, FHO entered into a Services and Expense Agreement with Franklin Flood, whereby Franklin Flood performs the direct marketing, sales and management of the Company's flood business. FHO, in conjunction with the flood insurance underwriter and the FEMA third-party administrator, facilitates and coordinates Franklin Flood's flood insurance policy production.

*Transition Plan*

Regarding the FHO flood program, all non-Pennsylvania flood business had always been underwritten through NHIC, as that insurer was licensed in all 50 states. This was the typical arrangement for the NFIP. In other words, FHO, and subsequently Franklin Flood, acted as a managing general agent for NHIC and serviced all the policies. Just as with FHO's Pennsylvania flood policies, NFS was the third-party administrator (TPA).

With regard to the transfer of the Pennsylvania business from FHO to NHIC, that business was merely placed under the umbrella of the agreement whereby Franklin Flood serviced the policies, but NHIC was the insurer (although as with all flood policies, FEMA was the 100% reinsurer) and NFS remained the TPA.

The Company provided notification of this transfer transaction (the Transition Plan) to the PA-DOI in 2014 which detailed what procedurally occurred, and was subsequently accepted by the PA-DOI. That Transition Plan was also filed with and

approved by the DE-DOI at the same time. This was the typical transition of flood insurance policies administered by the NFIP.

**Reinsurance Agreements**

The Company is not a party to any reinsurance agreements as of December 31, 2015, or as of the dissolution examination date.

**Balance Sheet**

The examiner reviewed the 2015 Annual Statement and the March 31, 2016, Quarterly Statement. A review was performed of the general ledger for the period January 1, 2015 through May 31, 2016. Additionally, a review of the bank and custodian statements was made as of December 31, 2015 and as of May 31, 2016.

The balance sheet below, which was compiled from the Company's May 31, 2016 general ledger, reflects that the major assets are invested assets. The Company reported no loss reserves or loss adjustment expenses at May 31, 2016.

**ASSETS, LIABILITIES, AND POLICYHOLDER SURPLUS**  
**As of May 31, 2016**

**Assets**

Bonds	\$ 16,642,650
Preferred stocks	2,359,915
Common stocks	53,306,212
Cash, cash equivalents and short-term investments	9,049,327
Investment income due and accrued	247,848
Receivable from parent, subsidiaries and affiliates	<u>2,213,842</u>
Total	<u><u>\$ 83,819,794</u></u>

**Liabilities**

Taxes, licenses and fees	\$ 22,639
Federal income tax payable	260,701
Payable for securities	<u>333,552</u>
Total	<u><u>\$ 616,892</u></u>

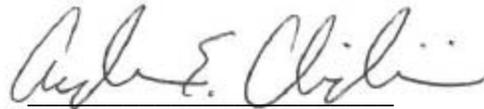
**Policyholder Surplus**

Common capital stock	\$ 5,300,000
Gross paid in and contributed surplus	7,000,000
Unassigned funds (surplus)	<u>70,902,902</u>
Total	<u><u>\$ 83,202,902</u></u>

Total Liabilities and Policyholder Surplus	<u><u>\$ 83,819,794</u></u>
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The Company has complied with the dissolution requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully Submitted,



Andrew E. Chiodini, CFE  
Examiner-In-Charge  
Department of Insurance  
State of Delaware