

12/19/12
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Organizational Examination

of the

Home Builders Mutual Insurance Company

104 Continental Place, Suite 200, Brentwood, TN 37027

as of

December 7, 2012

Department of Commerce and Insurance, State of Tennessee

Nashville, TN



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Nashville, Tennessee
December 7, 2012

Honorable Julie Mix McPeak, Commissioner
Department of Commerce and Insurance, State of Tennessee
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-2-103, an Organizational Examination was made of the activities and affairs of the:

Home Builders Mutual Insurance Company
104 Continental Place, Suite 200
Brentwood, Tennessee 37027

hereinafter and generally referred to as the "Company," and a report thereon is submitted as follows:

Introduction

This examination was called by the Commissioner of the Department of Commerce and Insurance, State of Tennessee (TDCI) and commenced on December 3, 2012. The examination is an "Organizational Examination" and was conducted by a duly authorized representative of the TDCI.

Scope of Examination

This examination was conducted as of December 7, 2012 to determine if the Company has complied with the statutory and regulatory requirements to establish and operate a mutual property and casualty insurance company according to the provisions of Title 56, Chapter 2, Part 1, and Title 56, Chapter 19 of the Tennessee Code Annotated. During the course of examination, all assets were verified and valued, and liabilities were determined or estimated as of December

7, 2012. The Company's financial solvency and the degree thereof were thus established. Although this is a limited scope examination it also included a review of the following matters:

Company History and Organization
Management and Control
Plan of Operation
Statutory Deposits
Financial Statement

They are discussed in detail as follows:

Company History and Organization

The Charter of the Company was filed with the TDCI and approved on September 12, 2012. The approved Charter was then signed by its incorporators and filed and recorded with the Secretary of State, State of Tennessee on September 13, 2012. Upon its filing, the Company became incorporated under the Tennessee Mutual Insurance Company Act as a not for profit mutual benefit corporation authorized to transact business in the State of Tennessee and elsewhere. Generally, the Charter contains provisions and safeguards usually found in such documents and no items of an unusual nature were noted. The terms of the Company's Charter include the following:

1. The name of the Corporation is Home Builders Mutual Insurance Company.
2. The Corporation is a mutual benefit corporation.
3. The duration of the Corporation is perpetual.
4. a) The street address of the Corporation's initial registered office is:
104 Continental Place, Suite 200
Brentwood, Tennessee 37027
County of Williamson.
- b) The name of the Corporation's initial registered agent is:
G. Everett Sinor, Jr.
5. The purpose or purposes for which the Corporation is organized are:
 - a) To engage as a principal in the insurance business in the State of Tennessee and elsewhere as a mutual insurance company;
 - b) To make insurance and reinsurance both in the State of Tennessee and elsewhere to protect against professional liability, casualty including workers' compensation, errors and omissions and comprehensive general liability pursuant to said Tennessee Mutual Insurance Company Act;

- c) To do all things which the Board of Directors determines to be necessary or appropriate in connection or associated therewith; and
 - d) To engage in any other lawful business.
6. The names and places of residence of the incorporators, each of whom is a bona fide resident of the State of Tennessee, are:

J.B. Downey & Sons, Inc.
Nashville, Tennessee 37219

Royal Oaks Apartments,
Franklin, Tennessee 37067

Carbine & Associates, LLC
Franklin, Tennessee 37067

Crystal Clear Technologies, LLC
Franklin, Tennessee 37067

Carbine Development Company, GP
Franklin, Tennessee 37067

Franklin Land Co., LLC
Franklin, Tennessee 37064

Liberty Oaks Apartments,
Franklin, Tennessee 37064

Harpeth Hills Apts. Phase II,
Franklin, Tennessee 37064

Carbine Realty Group, LLC
Franklin, Tennessee 37067

TNCON, LLC
Cordova, TN 38016

R.W. Graf, LLC
Knoxville, Tennessee 37920

Brad Rainey Homes, Inc.
Cordova, Tennessee 38018

Legacy Project Resources, LLC
Nashville, Tennessee 37221

New Vision Properties, LLC
Franklin, Tennessee 37067

Carbine Company, Inc.
Franklin, Tennessee 37067

House for Hope Foundation, Inc.
Franklin, Tennessee 37067

Vintage Homes, LLC
Cordova, Tennessee 38018

Ridgetop Apartments,
Lewisburg, Tennessee 37091

Don Moon Building & Developing,
Chattanooga, TN 37403

Urban Renaissance Group, LLC
Chattanooga, TN 37405

7. The street address of the Corporation's principal office is:

104 Continental Place, Suite 200
Brentwood, Tennessee 37027
County of Williamson

8. The Corporation is a not for profit mutual insurer. The Corporation has authority to issue paid-up guaranty capital certificates.
9. The Corporation will have members. The Corporation's members shall be its policyholders.
10. The names and addresses of the Corporation's initial Board of Directors, who shall serve until the first meeting of members, shall be:
 - Jackson Downey, Nashville, TN
 - Tonya Jones, Nashville, TN
 - Brad Rainey, Cordova, TN
 - Charles Morgan, Cordova, TN
 - James Carbine, Franklin, TN
 - Philip Crandall Chamberlain, II, Memphis, TN
 - Donald Edward Moon, Chattanooga, TN
 - Dick Graf, Knoxville, TN
11. The Corporation will not do any business unless it is possessed of a guaranty capital surplus of not less than Two Million Dollars (\$2,000,000).
12. The Corporation may adopt Bylaws, which may be altered, amended, reinstated or repealed.
13. To the fullest extent permitted by the Tennessee Nonprofit Business Corporation Act as in effect on the date hereof and as hereafter amended from time to time, a director of the Corporation shall not be liable to the Corporation or its Members for monetary damages for breach of fiduciary duty as a director; provided, however, that this provision shall not eliminate or limit the liability of a director of the Corporation for violation of Title 56 of the Tennessee Code Annotated. Any repeal or modification of this Paragraph 12 by the members of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification or with respect to events occurring prior to such time.

On September 18, 2012, the Board of Directors of the Company took the following action by unanimous written consent:

- Ratify and affirm all acts of the incorporators of Home Builders Mutual Insurance Company
- Adopt the Charter and Bylaws
- Set the number of Directors at eight (8) persons;
- Elect Officers of the Company
- Adopt banking resolutions and set the Company's fiscal year end as December 31
- Appoint TaylorChandler, LLC as the Company's independent CPA
- Appoint the Commissioner of Commerce and Insurance of the state of Tennessee as its attorney to acknowledge service of all legal process
- Adopt the Code of Conduct and Conflict of Interest Policy
- Adopt the Workers' Compensation Anti-fraud Plan
- Adopt an Investment Policy

- Appoint Wells Fargo Advisors, LLC as Investment Advisor

On September 18, 2012, the Company filed an application with the TDCI for a Certificate of Authority to transact the business of insurance and paid the required \$675 application fee.

Management and Control

The Bylaws of the Company were adopted by unanimous written consent of the Board of Directors on November 1, 2012. They may be altered, amended, repealed or restated, and new Bylaws may be adopted, at any meeting of the Members by the affirmative vote of a majority of the Members represented at such meeting, or by the affirmative vote of a majority of the members of the Board of Directors who are present at any regular or special meeting. Any such amendment shall within thirty (30) days after adoption be filed with the TDCI.

Board of Directors

The Bylaws provide that all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Company managed under the direction of, the Board of Directors. The Board may delegate the management of the day-to-day operation of the business of the Company to a management company or other person provided that the business and affairs of the Company shall be managed, and all corporate power shall be exercised, under the ultimate direction of the Board.

The Board shall consist of not fewer than three (3) nor more than (15) directors. The exact number of Directors, or the range for the size of the Board, or whether the size of the Board shall be fixed or variable-range may be fixed, changed or determined from time to time by the Board. All Directors shall be employees, officers or directors of members of the Company. Directors shall be elected at the first annual members' meeting and at each annual meeting thereafter. The terms of all directors shall expire at the next annual Members' meeting following their election. Despite the expiration of a Director's term, he or she shall continue to serve until his or her successor is elected and qualified or until there is a decrease in the number of Directors. The members of the Company's initial Board of Directors were specified in the Company's Charter and approved by unanimous written consent of the Board. They shall serve until the first meeting of the Members and are comprised of the following individuals:

Jackson Downey
6949 Charlotte Pike, Suite 208
Nashville, Tennessee 37209

James Carbine
621 Bradley Court
Franklin, Tennessee 37067

Tonya Jones
209 10th Avenue South, Suite 411
Nashville, Tennessee 37203

Philip Crandall Chamberlain, II
4180 East Raines Road
Memphis, Tennessee 38118

Brad Rainey
281 Germantown Bend Cove
Cordova, Tennessee 38018

Donald Edward Moon
220 Cherry Street
Chattanooga, Tennessee 37403

Charles Morgan
865 Willow Tree Circle
Cordova, Tennessee 38018

Dick Graf
3505 Bluff Point Drive
Knoxville, Tennessee 37920

The Board may hold regular and special meetings either within or without the State of Tennessee. The Board may permit any or all Directors to participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. Regular meetings of the Board may be held without notice of the date, time, place or purpose of the meeting. Special meetings of the Board may be called by the President or any Director. Unless the Charter otherwise provides, special meetings must be preceded by at least twenty-four (24) hours' notice of the date, time and place of the meeting but need not describe the purpose of such meeting. Such notice shall comply with the requirements of Article X of the Bylaws.

Unless the Charter requires a greater number, a quorum of the Board of Directors consists of a majority. If a quorum is present when a vote is taken, the affirmative vote of a majority of Directors present is the act of the Board, unless the Charter or the Bylaws require the vote of a greater number of Directors.

Unless the Charter otherwise provides, any action required or permitted by the Act to be taken at a Board meeting may be taken without a meeting. If all Directors consent to taking such action without a meeting, the affirmative vote of the number of Directors that would be necessary to authorize or take such action at a meeting is the act of the Board. Such action must be evidenced by one or more written consents describing the action taken, at least one of which is signed by each Director, indicating the Director's vote or abstention on the action, which consents shall be included in the minutes or filed with the corporate records reflecting the action

taken. Action taken by consent is effective when the last Director signs the consent, unless the consent specifies a different effective date.

A Director may resign at any time by delivering written notice to the Board, President, or to the Company. A resignation is effective when the notice is delivered unless the notice specifies a later effective date. In the event that a Director ceases to be an employee, officer or director of a member, written notice of such Director's change in status shall constitute resignation effective when delivered.

The Members may remove one or more Directors with or without cause unless the Charter provides that Directors may be removed only for cause. If a Director is elected by a voting group of Members, only the Members of that voting group may participate in the vote to remove him/her without cause. If cumulative voting is authorized, a Director may not be removed if the number of votes sufficient to elect him/her under cumulative voting is voted against his/her removal. If cumulative voting is not authorized, a Director may be removed only if the number of votes cast to remove him/her exceeds the number of votes cast not to remove. Any of the Directors may be removed for cause by the affirmative vote of a majority of the entire Board. A Director may be removed by the Members or Directors only at a meeting called for the purpose of removing him/her, and the meeting notice must state that the purpose, or one of the purposes, of the meeting is removal of Directors.

Committees

The Board may create one or more committees, each consisting of one or more Members. All members of Committees of the Board which exercise powers of the Board must be members of the Board and serve at the pleasure of the Board. The creation of a Committee and appointment of a member or members to it must be approved by the greater of (i) a majority of all Directors in office when the action is taken or (ii) the number of Directors required by the Charter or the Bylaws to take action. Unless otherwise provided in the Act, to the extent specified by the Board or in the Charter, each Committee may exercise the authority of the Board. All such Committees and their members shall be governed by the same statutory requirements regarding meetings, action without meetings, notice and waiver of notice, quorum and voting requirements as are applicable to the Board and its members.

Officers

The Officers of the Company shall be a Chairman of the Board, a President, a Secretary, a Treasurer and such other officers as may be from time to time appointed by the Board. One person may simultaneously hold more than one office except the President may not simultaneously hold the office of Secretary. The principal officers shall be appointed annually by the Board at the first meeting of the Board following the annual meeting of the Members, or as soon thereafter as is conveniently possible. Each officer shall serve at the pleasure of the Board and until his or her successor shall have been appointed, or until his or her death, resignation or removal. The initial Officers of the Company which were specified in the Company's Charter and approved by unanimous written consent of the Board of Directors consist of the following individuals:

Jackson Downey, Chairman of the Board and President
James Carbine, Treasurer
Tonya Jones, Secretary

An Officer may resign at any time by delivering notice to the Company. Such resignation is effective when such notice is delivered unless such notice specifies a later effective date. An officer's resignation does not affect the Company's contract rights, if any, with the officer. The Board may remove any Officer at any time with or without cause, but such removal shall not prejudice the contract rights, if any, of the person so removed. Any vacancy in an office from any cause may be filled for the unexpired portion of the term by the Board.

The Chairman of the Board, if present, shall preside at all meetings of the Members and of the Board of Directors. The President shall be the Chief Executive Officer of the Company and shall have general supervision over the active management of the business of the Company. He/she shall have the general powers and duties of supervision and management usually vested in the office of the President of a corporation and shall perform such other duties as the Board of Directors may from time to time prescribe. He/she shall see that all orders and resolutions of the Board are carried into effect and in the absence of the Chairman of the Board shall, if present, preside over all meetings of the members and of the Board of Directors.

The Secretary shall attend all meetings of the Board and all meetings of the Members and shall prepare and record all votes and all minutes of all such meetings in a book to be kept for that purpose; he/she shall perform like duties for any Committee when required. The Secretary shall give, or cause to be given, notice of all meetings of the members and of the Board of

Directors when required, and unless directed otherwise by the Board, shall keep a record containing the names of all persons who are Members of the Company, showing their place of residence. The Secretary shall have the responsibility of authenticating records of the Company. The Secretary shall perform such other duties as may be prescribed from time to time by the Board.

The Treasurer shall have the custody of the Corporation's funds and securities, shall keep or cause to be kept full and accurate account of receipts and disbursements in books belonging to the Company, and shall deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse or cause to be disbursed the funds of the Company as required in the ordinary course of business or as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the President and directors at the regular meetings of the Board, or whenever they may require it, an account of all of his or her transactions as Treasurer and the financial condition of the Company. The Treasurer shall give the Company a bond, if required by the Board, in a sum and with one or more sureties satisfactory to the Board for the faithful performance of the duties of his/her office and for the restoration to the Company in case of his/her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his/her possession or control belonging to the Company.

Members

The Company is a mutual insurance company whose policyholders are its Members. The Bylaws require an annual meeting of the Members to be held on such date as may be determined by the Board for the purpose of electing directors and such other business as shall be properly brought before the meeting. A special meeting of Members shall be held on call of the Board or if at least twenty percent (20%) of the Members entitled to vote on any issue proposed to be considered at the proposed special meeting sign, date and deliver to the Company's Secretary one or more written demands for the meeting describing the purpose or purposes for which such special meeting is to be held. Only business within the purpose or purposes described in the meeting notice may be conducted at a special Members' meeting.

The Board may designate any place as the place of meeting for any annual meeting or for any special meeting, and if no place is fixed by the Board, the meeting shall be held at the

principal office of the Company. Notice of the date, time and place of each annual and special Members' meeting and, in the case of a special meeting, a description of the purpose or purposes for which the meeting is called, shall be given no fewer than ten (10) days nor more than sixty (60) days before the date of the meeting.

After the record date for a meeting has been fixed, the Company shall prepare an alphabetical list of the names of all Members who are entitled to notice of a Members' meeting. Such list will show the address of each Member. The Members' list will be available for inspection by any Member, beginning two business days after notice of the meeting is given for which the list was prepared and continuing through the meeting, at the Company's principal office or at a place identified in the meeting notice in the city where the meeting will be held. A Member or such member's agent or attorney is entitled on written demand to inspect and, subject to the requirements of the Tennessee Business Corporation Act, to copy the list, during regular business hours and at such member's expense, during the period it is available for inspection.

A majority of the votes entitled to be cast on a matter by the Members constitutes a quorum for action on that matter. If a quorum of Members shall not be present or represented at any meeting, the Members entitled to vote thereat shall have power to adjourn the meeting to a different date, time or place without notice other than announcement at the meeting of the new time, date or place to which the meeting is adjourned. If a quorum exists, approval of action on a matter (other than the election of directors) by Members entitled to vote thereon is received if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the Charter or the Act requires a greater number of affirmative votes. Unless otherwise provided in the Charter, directors are elected by a plurality of the votes cast by the Members entitled to vote in the election at a meeting at which a quorum is present.

A Member may vote in person or by proxy. A Member may appoint a proxy to vote or otherwise act for him or her by signing an appointment either personally or by his or her attorney-in-fact. An appointment of a proxy is effective when received by the Secretary or other officer or agent authorized to tabulate votes. An appointment is valid for eleven (11) months unless another period is expressly provided in the appointment form. An appointment of a proxy is revocable by the Member unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest.

Members shall be any person, partnership, corporation, limited liability company or other legal business entity who is an employer and who is a policyholder paying premiums for insurance coverage provided by the Company if the Company is then accepting premiums and providing insurance coverage, and shall otherwise be the entities who were Members preceding the Company's cessation of either such activity. Each Member shall designate a specific individual to represent the Member at meetings of the Company; in the absence of such designation, any individual with apparent authority to act for a Member shall be considered to be the Member's representative.

The Board of Directors shall determine the terms and conditions pursuant to which qualified applicants may become new Members of the Company. Such terms and conditions may include a capital contribution in an amount determined by the Board. The Board of Directors shall receive applications for membership from prospective new members and shall approve or disapprove such applications in accordance with such terms and conditions. The Trustees may delegate the ministerial authority for membership approval to an authorized officer or management company.

Plan of Operation

Based in Brentwood, Tennessee, the Company intends to underwrite workers' compensation and employer's liability risks of home builders located in the State of Tennessee, starting January 1, 2013. In October of 1994, numerous home building companies that were members of the Home Builders Association of Tennessee ("the Association") established the Home Builders Association of Tennessee Self-Insured Workers' Compensation Trust ("the Trust"). The purpose of setting up the Trust was to allow the member employers to self-insure their workers' compensation liabilities by pooling their liabilities with other members of their industry. These member employers took advantage of legislation passed in Tennessee in 1985 which allowed members of the same trade association to pool their workers' compensation liabilities and qualify as self-insurers for purposes of complying with Tennessee's mandatory coverage requirement.

Through the years, the Trust's financial position strengthened, with over \$10 million set aside for member employer distributions by the end of 2011. In 2012, the Trust began exploring ways in which it could strengthen its position for future growth into other states and into other

lines of insurance critical to the business of the members. Following a series of meetings, the Trust's Board of Trustees determined that a Tennessee domiciled mutual insurance company would be a more viable long term vehicle to provide workers' compensation insurance to the Trust's member employers. The Board decided that transitioning coverage to a mutual insurance company would foster membership and corresponding premium growth as insurance policies issued by the Company would not subject its policyholder members to the joint and several liability that is associated with coverage provided to members of the Trust under Tennessee insurance regulations. Additionally, the new mutual company could provide additional lines of P&C insurance to its member policyholders in future years and would also have the capacity to expand its coverage into other states where members or prospective members have operations.

Accordingly, the Company was incorporated on September 13, 2012 as a nonprofit corporation pursuant to Chapters 51-68 of the Tennessee Business Corporation Act and as a mutual property and casualty insurance company pursuant to Title 56, Chapter 19 of the Tennessee Code Annotated. Three major events will need to occur contemporaneously in order for the proposed transaction to take place, as follows:

- 1) The Company was initially capitalized with a \$6 million investment by the Trust in exchange for a Permanent Guaranty Capital Certificate issued by the Company to the Trust. This transaction was approved by the Boards of Directors of the Trust and of the Company effective November 1, 2012 by unanimous written consent.
- 2) It is anticipated that the Trust will cede to the Company, and the Company will assume from the Trust, all claims for workers compensation and employers' liability incurred on policies issued by the Trust from February 1, 1995 through December 31, 2012. This transaction will be accounted for as reinsurance pursuant to a Self-Insurance Loss Portfolio Transfer Agreement and will essentially transfer to the Company all remaining risk of loss on all policies issued by the Trust since its inception. The Boards of both the Trust and the Company on November 1, 2012 through unanimous written consent approved the Loss Portfolio Transfer Agreement which will become final upon issuance of a Certificate of Authority to the Company.
- 3) It is necessary that the Company's application for a Certificate of Authority as a Tennessee domestic mutual insurance company be approved, and the certificate of authority be issued by the Commissioner of the TDCI prior to December 31, 2012. If the Company's application for a Certificate of Authority is denied then (i) funds held by the Company from the Permanent Guaranty Capital Certificate will be returned to the Trust by December 31, 2012, (ii) the Permanent Guaranty Capital Certificate will be cancelled, and (iii) the Loss Portfolio Transfer will never be funded nor become effective.

Upon issuance of a Certificate of Authority, the Company's focus will be on providing workers' compensation insurance for Tennessee-based home builder employers operating in Tennessee and many of its contiguous states. Former Trust Members will be able to continue to procure workers compensation insurance coverage through the Company in the same manner as the Trust has operated since 1995. The group self-insurance Trust will surrender its Certificate of Authority upon issuance of a Certificate of Authority to the Company. In future years, after seasoning requirements are satisfied, the Company intends to write coverages for its Tennessee members on their business activities in contiguous states and also to look at new policyholders who are home builder employers headquartered and operating in contiguous states. Moreover, the Company intends to look at providing additional property and casualty products specific to its home builder members. It is projected that the Company will have direct written premium of \$4.0M, \$4.5M and \$5.5M for the years 2013, 2014 and 2015, respectively.

The Company's products will be distributed through licensed independent producers, with the overall marketing effort being reviewed by a sales and marketing team overseen by the Company's Board of Directors. Furthermore, marketing assistance services intended to help develop the Company's business will be provided under the Company's proposed third party administrator agreement. Underwriting guidelines have been established to ensure that the most favorable accounts are selected. The Company's proposed third party administrator agreement provides many account management and underwriting functions. However, all final underwriting decisions are made by the Company's Board of Directors and Officers.

The Trust currently has in place an excess insurance policy with Safety National Casualty Corporation. It is intended that the excess insurance policy will be converted into a reinsurance contract at the time of transition. Similar excess insurance policies have been in place since the Trust commenced operations in 1994. It is anticipated that the Company will put in place a reinsurance program largely similar to the Trust's current excess program.

The investment philosophy utilized by the Trust's Board of Trustees will continue to be utilized by the Company under its formal investment policy adopted by the Board of Directors. Funds not needed for current obligations will be invested in accordance with applicable state and federal statutes and regulations. All investments authorized by the Company will be consistent with, and shall be held in accordance with, the Company's investment policy, the requirements for the investment of insurance company assets authorized pursuant to Title 56, Chapter 3 of the

Tennessee Code Annotated as now enacted or as later amended, and other applicable state investment laws.

The Company intends to contract with Brentwood Services Administrators, Inc. to provide claims management services for the Company. BSAI uses a subcontractor to provide automated medical provider bill repricing. The Company has adopted an anti-fraud plan that is compliant with Title 56, Chapter 47 of the Tennessee Code Annotated and which is designed to minimize the risk of claimant fraud upon the company. Technical Insurance Services, Inc. is solely responsible for providing loss control services for the Trust, and it is expected the Company will continue to arrange for those services to be provided by an outside vendor with necessary experience and qualifications. The Company will use outside vendors which have extensive experience providing such services for insurance companies and other related entities as follows:

- Outside accounting services – TaylorChandler, LLC;
- Outside actuarial services – Casualty Actuarial Consultants, Inc.;
- Outside investment advisory services – Wells Fargo Advisers, LLC;
- Outside legal services – Bass, Berry & Sims; and,
- Outside banking/custodial services – Bank of America, N.A.

Statutory Deposit

In compliance with statutory requirements, the Company maintained the following deposits with the TDCI beginning November 27, 2012:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Knoxville TN Waste WTR SYS REV RFDG SER A BE, 4.00%, due 04/01/22, CUSIP # 499815-KV-9	\$ 225,000	\$ 269,565	\$ 268,090
Wilson CNTY TN RFDG CNTY DIST SCH IMPT B G/O UNLTD B/E, 4.00%, due 04/01/2021, CUSIP # 97217P-DP-1	<u>220,000</u>	<u>266,280</u>	<u>265,547</u>
Total	<u>\$ 445,000</u>	<u>\$535,845</u>	<u>\$533,637</u>

The securities will be held pursuant to a three party Depository Agreement between the Commissioner of the TDCI, Bank of America, N.A., (P.O. Box 1949, Brentwood, TN 37024) and the Company. On November 27, 2012, the Investment Manager delivered a signed copy of

the Depository Agreement and trade confirmations for the above listed securities to the TDCI. The Agreement was signed by the Bank on November 23, 2012, and signed by the Company on November 20, 2012. The trade confirmation receipts which were provided indicated that the two securities on deposit exceeded the \$400,000 market value requirement pursuant to Tenn. Code Ann. § 56-2-104. Examination procedures included confirmation of the above deposits with the custodian of the deposits. It is recommended that if the Company is granted a Certificate of Authority, the Commissioner simultaneously execute the Depository Agreement as the required third signatory.

Financial Statement

There follows a statement of assets and liabilities at December 7, 2012 as established by this examination. This is based on the Company's Opening Financial Statement as of November 19, 2012 which was provided to the TDCI as part of their application material. Events occurring subsequent to the Opening Statement date through this December 7, 2012 report date were reviewed for purposes of including the financial effect of any transactions in these financial statements.

<u>Assets</u>	
Bonds	\$ 1,122,785
Cash	4,925,007
Accrued Interest	<u>2,208</u>
Total Assets	6,050,000
<u>Liabilities</u>	
Premium Deposits	<u>(50,000)</u>
<u>Surplus as Regards Policyholders</u>	
Permanent Guaranty Capital Certificate	<u>\$ 6,000,000</u>

The above amounts are different than what was reported by the Company in its Opening Statement due to the following:

Statutory Deposit

On November 27, 2012, the Company purchased two securities to post with the Commissioner of the TDCI to satisfy their statutory deposit requirement (as noted earlier in the

report). Cash was decreased by \$535,844 to reflect the purchase, Bonds were increased by \$533,636 and an Accrued Interest asset was added to reflect \$2,208 of paid for interest.

Certificate of Deposit

A short term certificate of deposit in the amount of \$99,072 had been incorrectly reported as "Bonds" in the Opening Statement. It was reclassified as "Cash" for purposes of this Organizational Examination.

Advance Premium

Cash was increased by \$50,000 and a liability for Premium Deposits was created to reflect the Company's receipt of advance premium deposits. Tenn. Code Ann. § 56-19-109 (License-Conditions precedent) provides that a license cannot be issued until the Company holds bona fide applications for insurance upon which it shall issue simultaneously at least twenty policies to at least twenty members covering not less than 1,500 employees. Further, the Company is required to have collected a premium upon each application, which premiums shall be held in cash or securities in which insurance companies are authorized to invest, and shall be equal in the case of workers compensation insurance to not less than \$50,000. These adjustments reflect advance premium deposits the Company received subsequent to the date of its Opening Statement.

Surplus

The Company's Surplus is in the form of \$6,000,000 cash and investments which were advanced to the Company from the Home Builders Association of Tennessee Self Insurance Trust. In return, the Company issued a Permanent Guaranty Capital Certificate to the Trust. The Certificate represents the interest of the Trust in the Company and is acquired in order to enable the Company to meet minimum policyholder surplus requirements of Tennessee Statutes and Rules & Regulations. This transaction was approved by the Boards of Directors of the Trust and of the Company effective November 1, 2012 by unanimous written consent.

The Trust's interest manifested by the Certificate is that of a creditor. It shall not be interest bearing. The creditor's interest reflected by the Certificate shall entitle the Trust only to the return of all or part of the Trust's contribution to the Company's capital upon redemption in whole or in part, subject to approval by the Company's Board of Directors, and further subject to

prior approval by the Commissioner of the TDCI. The rights provided for in the Certificate shall be subordinate to the rights of the Company's policyholders, its claimants and beneficiaries and all other classes of creditors of the Company other than surplus note holders.

In the event that the Company is not issued a Certificate of Authority from the Commissioner, the proceeds from the Certificate must be returned to the Trust no later than December 31, 2012. In the event a Certificate of Authority is issued, an "Agreed Order" will be issued by the Commissioner which among other things will confirm the Department's acceptance of the terms of the Certificate for purposes of allowing it to be accounted for as "surplus" of the Company.

Comments

I have verified the foregoing financial statement which is included in this examination report. In conjunction, I have inspected the following documents and records of the Company:

- 1) Charter of Incorporation
- 2) Bylaws
- 3) Minutes to meetings and Resolutions of the Board of Directors,
- 4) Biographical sketches of all directors and officers,
- 5) The Company's proposed Plan of Operation,
- 6) Investment statements and safekeeping agreements,
- 7) Opening and pro-forma financial statements,
- 8) Loss Portfolio Transfer Agreement,
- 9) Permanent Guaranty Capital Certificate
- 10) Records of Members' advance premium deposits

Based on my review, and in my opinion:

The Company has complied with Tenn. Code Ann. § 56-19-101 by having no less than twenty (20) incorporators which are all residents of the State of Tennessee.

The Company's Articles of Incorporation include all provisions required pursuant to Tenn. Code Ann. § 56-19-103, and were filed in accordance with requirements contained in Tenn. Code Ann. § 56-19-104.

The Company adopted its Bylaws and filed them in accordance with Tenn. Code Ann. § 56-19-107.

The Company's proposed plan of operation and the products it intends to offer is in accordance with the requirements of Tenn. Code Ann. § 56-19-108.

The Company adopted a Workers' Compensation Anti-Fraud Plan as required by Tenn. Code Ann. § 56-47-112.

The Company is not a member of a Holding Company as defined by Tenn. Code Ann. § 56-11-201.

The Company is party to a Custodial Agreement signed November 9, 2012 with Bank of America National Association. The Agreement was reviewed and found to be in compliance with Tenn. Comp. R. & Reg. 0780-1-46.

Conclusion

In my opinion, the Company has satisfied all conditions precedent necessary to become licensed pursuant to Tenn. Code Ann. § 56-19-109, and has demonstrated that its financial condition, methods of operation and manner of doing business are adequate to meet its obligations to all policyholders in this State. I therefore recommend that Home Builders Mutual Insurance Company be issued a Certificate of Authority pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated to establish and operate such mutual property and casualty insurance company in Tennessee.

Respectfully submitted,



Mark Jaquish, CFE, CPA
Insurance Analysis Director
Tennessee Department of Commerce and Insurance

Examination Affidavit

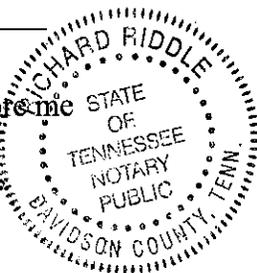
The undersigned deposes and says that he has duly executed the attached examination report of Home Builders Mutual Insurance Company dated December 7, 2012, and made as of December 7, 2012, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

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Mark Jaquish, CFE, CPA
Insurance Analysis Director
Tennessee Department of Commerce and Insurance

County Davidson
State Tennessee

Subscribed and sworn to before me
this 7th day of
December, 2012



Richard Riddle

(Notary)

WAIVER

Home Builders Mutual Insurance Company hereby waives all review rights (provided by Tenn. Code Ann. § 56-1-411(d)(1)) it may have with respect to the Organizational Examination Report of Home Builders Mutual Insurance Company by the Department of Commerce and Insurance of the State of Tennessee as of December 7, 2012. This Waiver is freely given and is not given in exchange for any consideration or promise by anyone to take any action. The undersigned is duly authorized to execute such Waiver on behalf of such company.

This 7th day of December, 2012.

HOME BUILDERS MUTUAL INSURANCE
COMPANY

By: _____

Title: _____

John Belmont

President

STATE OF Tennessee)
)
COUNTY OF Williamson)

Personally appeared before me, John B. Downey, Jr., personally known to me, and having been first duly sworn, saith that he/she executed the foregoing Waiver on behalf of Home Builders Mutual Insurance Company, and that he/she was duly authorized to do so.

Mary Lou Hood

NOTARY PUBLIC

My Commission Expires: 02/23/15

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