REPORT OF EXAMINATION
OF THE
HOMESURE PROTECTION
OF CALIFORNIA, INC.
AS OF
DECEMBER 31, 2016

FILED JUNE 20, 2018

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Los Angeles, California
March 30, 2018

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HOMESURE PROTECTION OF CALIFORNIA, INC.

(hereinafter also referred to as the Company) at its home office and primary location of its books and records at 1625 N.W. 136th Avenue, Suite 200, Fort Lauderdale, Florida 33323. The Company's agent for service of process is National Registered Agents, Inc., located at 2875 Michelle Dr., Suite 100, Irvine, California 92606.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2011. This examination covered the period from January 1, 2012 through December 31, 2016.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated, both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Company.

There was no examination coordination with any of the Company's other affiliates.

SUMMARY OF SIGNIFICANT FINDINGS

A review of the Company's loss experience during the examination period disclosed a historical trend of net underwriting losses and net losses that commenced in 2015 and has continued through the subsequent year of 2017 as follows:

Year	Net Underwriting Gain/(Loss)	Net Income or (Loss)	Company Surplus
2015	$ 55,454	$ (126,510)	$ 3,789,820
2016	(1,060,157)	(823,823)	2,444,124
2017(*)	(1,692,475)	(1,551,850)	707,037

(*) Subsequent year after examination period

The Company's above noted losses experience and the $11.9 million in dividends paid during the examination period, as discussed in the Company History section of this report, has significantly reduced the Company's surplus. The Company's surplus at the prior examination date of December 31, 2011 was $6.7 million. However, as of the subsequent year December 31, 2017, surplus has declined to $707,037. California Insurance Code Section (CICS) 12750(a) requires the Company maintain a minimum surplus of $400,000. Although the Company's surplus was above the required minimum surplus level, if the adverse loss experience noted in the table above continues into subsequent years, the Company will be below its required minimum surplus level and in violation of CICS 12750(a). During the course of examination, the Company was unable to furnish statutory accounting records during the 2017 year, thereby limiting the substantiation of the Company's adequate surplus level during certain periods within the 2017 year. Based on these stated significant findings noted during the examination, and in accordance with CICS 733(a)(b)(c) which provides the commissioner with the power to access all books of the company, inspect all of its affairs, and ascertain the Company's condition; plus the provisions of CICS 12752(a) which provides the commissioner with authority to request financial statements at any time, it is recommended that the Company submit their quarterly financial statements, which are performed on a Generally Accepted Accounting Principles basis, to the California Department of Insurance (CDI), so that their surplus position during any particular period of the year can be substantiated, and to ensure they are meeting their minimum surplus level in accordance with CICS 12750(a). In addition, semi-annual company financials performed on a statutory accounting basis should also be submitted to the CDI. Lastly, it is recommended that the Company submit a business plan to the CDI, with pro forma financials and their overall plan to reverse the downward trends disclosed above.

COMPANY HISTORY

The Company was incorporated on February 6, 1979 under the laws of the state of California, and is licensed to write home warranty business in the state of California.

The capital structure of the Company includes 100,000 shares of its $20 par value common stock authorized, and 1,000 shares of its $20 par value common stock shares outstanding and issued to its parent, HomeSure of America, Inc., a Florida company.

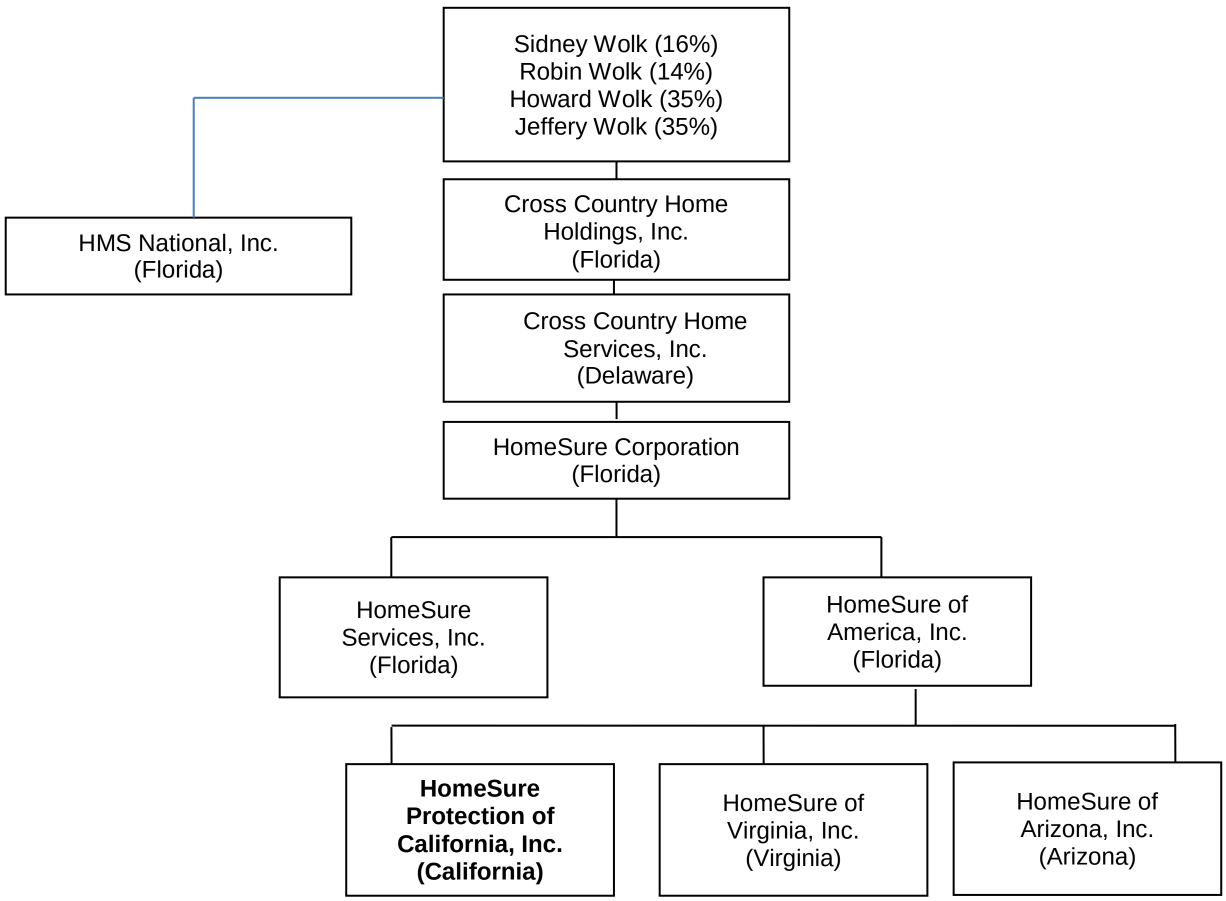
Dividends Paid to Parent

During the examination period, the Company paid its parent, HomeSure of America, Inc., the following cash dividends:

Type of Dividend	California Department of Insurance Notification	California Department of Insurance Approval	Date Paid	Amount Paid
Ordinary	07/26/2012	Not required	08/13/2012	$ 3,000,000
Ordinary	08/01/2013	Not required	08/16/2013	3,000,000
Ordinary	08/04/2014	Not required	08/18/2014	3,250,000
Ordinary	08/06/2015	Not required	08/20/2015	2,650,000
Total				$11,900,000

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of HomeSure of America, Inc. The four ultimate controlling individuals are from the Wolk Family: Howard Wolk, Jeffrey Wolk, Sidney Wolk, and Robin Wolk. The following organization chart depicts the interrelationship of the Company within the holding company group (all ownership is 100% unless otherwise indicated):



The three members of the board of directors are elected annually, and manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2016:

Directors

Name and Location	Principal Business Affiliation
Howard L. Wolk Brookline, Massachusetts	Vice President Cross Country Home Holdings, Inc.
Jeffrey C. Wolk Brookline, Massachusetts	Vice President Cross Country Home Holdings, Inc.
Sidney D. Wolk Boston, Massachusetts	Vice President Cross Country Home Holdings, Inc.

Principal Officers

Name	Title
Steven E. Upshaw	President
Ramesh Outram	Chief Financial Officer
Magaret G. Ward	Secretary and Treasurer

Inter-Company Agreements

Management Agreement: The Company does not have any direct employees, and therefore, since October 1, 1998, it has been party to an amended management agreement with its affiliate, Cross Country Home Services, Inc. (CCHS). Under the terms of the amended management agreement, CCHS has managed the Company's home warranty business, including the appointment of independent service contractors, the settlement of claims, the payment of expenses, the collection of premiums, the accounting functions, marketing services, and other regulatory matters. The Company was not able to substantiate that its October 1, 1998 amended management agreement was approved by the California Department of Insurance (CDI) pursuant to California Insurance Code Section (CICS) 1215.5(b)(4). Therefore, effective December 18, 2009, the October 1, 1998 management agreement was amended, and on July 21, 2010, the amended agreement was approved by the CDI. Under the terms of the amended and approved management agreement, the services previously disclosed above continue to be provided, plus premium collections by CCHS are now held in a fiduciary capacity and paid to the Company within 30 days after month closing. Direct costs continue to be reimbursed on an actual cost basis; and indirect costs are allocated among the affiliates based on the percentage of home protection contracts written by each company within the CCHS group of companies. Under the terms of the management agreement, total costs paid by the Company to CCHS for the 2012, 2013, 2014, 2015, and 2016 years totaled $7,135,683, $6,215,327, $4,970,361, $10,158,081, and $15,161,596, respectively. The indirect portion for the 2012, 2013, 2014, 2015, and 2016 years totaled $2,803,120, $2,217,831, $1,606,164, $2,361,707, and $2,434,523, respectively.

Tax Sharing Agreement: The Company files a consolidated federal income tax return with its ultimate parent, Cross Country Home Holdings, Inc., pursuant to a tax sharing agreement, effective March 1, 2005. The annual tax liability of the participants to the agreement is based on each participant's separate taxable income with credits for operating losses or other items used in the consolidated return. This tax sharing agreement was approved by the California Department of Insurance on October 12, 2005. During the five year examination period, the Company paid/(recovered) the following federal income taxes:

Year	Amount
2012	$ 303,629
2013	551,529
2014	(776,901)
2015	1,292,017
2016	110,234

<u>TERRITORY AND PLAN OF OPERATION</u>

The Company is licensed to write home protection contracts only in the state of California. Net contract fees written during the years 2012, 2013, 2014, 2015, and 2016, totaled $12,793,548, $12,099,954, $10,966,954, $18,237,769, and $26,986,189, respectively.

One of the Company's significant business producer relationships during the prior examination period ended in 2012; therefore, significant net contract fees were not produced during this examination period. This expired agreement was in place from June 1, 2009 until its expiration date of May 31, 2012, and is summarized as follows:

- The Company's affiliate, Cross Country Home Services (CCHS) entered into a June 1, 2009 agreement with Freddie Mac (FM); whereby FM paid for two-year home warranty contracts. The agreement dealt with Real Estate Owned (REO) properties owned and sold by FM. These were homes that had been through the foreclosure process and then purchased by new homebuyers. CCHS furnished homebuyers of the FM REO California properties with a two-year home warranty contract paid for by FM. CCHS utilized the Company to issue the California home warranty contracts.

Through its vetting and approval process, the Company maintains a listing of independent contractors, which they utilize throughout California for the servicing of its claims. The Company's business is currently marketed and produced through the following sources:

- To the customers of various third party clients, although this business has been reduced in the past several years, previous partners included: Bank of America, N.A., Ocwen Financial Corporation, and GMAC mortgage, LLC.
- Through third party real estate brokers;
- Through its management agreement with Cross Country Home Services, Inc.

(CCHS), the Company receives marketing services provided by HMS National, Inc., an affiliated company;

- Through its relationship with Sears Holdings Management Corp.
- Direct sale to the public through its web site and its service centers located in Fort Lauderdale, Florida and in Anderson, South Carolina.

The Company continues to pursue new channels of growth, and this has resulted in its net contract fees written to continually increase during the examination period.

REINSURANCE

The Company did not assume or cede any reinsurance during the examination period.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Contract Holders from December 31, 2011 through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

Assets	Ledger and Nonledger Assets		Net Admitted Assets	Notes
Bonds	$ 4,888,561		$ 4,888,561	
Cash and short-term investments	24,042		24,042	
Home protection contract fees receivable	10,010,254		10,010,254	
Receivable from parent, subsidiaries and affiliates	379,443		379,443	
Interest, dividends and real estate income due and accrued	43,295		43,295	
Total assets	$ 15,345,595		$ 15,345,595	
Liabilities, Surplus and Other Funds				
Claims adjusted and unpaid or in process of adjustment			$ 1,866,385	(1)
Claims service expense			24,918	
Other expenses			2,870	
Taxes, licenses and fees			173,221	
Current federal income taxes			110,234	
Unearned home protection contract fees			10,723,843	
Total liabilities			12,901,471	
Common capital stock		$ 20,000		
Gross paid-in and contributed surplus		902,604		
Unassigned funds (surplus)		1,534,020		
Less: Treasury stock, at cost		(12,500)		
Surplus as regards contract holders			2,444,124	
Total liabilities, surplus and other funds			$ 15,345,595	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income		
Home protection contract fees earned		$ 23,562,433
Deductions:		
Claims incurred	$ 9,460,994	
Claims service expenses incurred	2,434,523	
Other underwriting expenses incurred	12,727,073	
Total underwriting deductions		24,622,589
Net underwriting loss		(1,060,157)
Investment Income		
Net investment income earned	$ 149,605	
Net realized capital gain	2,521	
Net investment gain		152,126
Net loss before federal income taxes		(908,030)
Federal income taxes incurred		(84,207)
Net loss		$ (823,823)

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2015		$ 3,789,820
Net loss	$ (823,823)	
Change in nonadmitted assets	93,413	
Other losses in surplus:		
Other changes in equity:		
Adjustment for GAAP to STAT change in tax accounts	(137,420)	
Change in deferred tax assets	(477,866)	
Change in surplus as regards contract holders for the year		(1,345,696)
Surplus as regards contract holders, December 31, 2016		$ 2,444,124

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2011 through December 31, 2016

	Gain in Surplus	Loss in Surplus	
Surplus as regards contract holders, December 31, 2011 per Exam			$ 6,688,226
Net income	$ 8,761,326	$	
Change in non-admitted assets	429,833		
Dividends to stockholders		11,900,000	
Other losses in surplus:			
Change in deferred tax assets		699,686	
Other changes in equity: Adjustment for GAAP to STAT Change in Tax Accounts		835,575	
Total gains and losses	$ 9,191,159	$ 13,435,261	
Net decrease in surplus as regards contract holders			4,244,102
Surplus as regards contract holders, December 31, 2016, per Exam			$ 2,444,124

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Adjusted and Unpaid or in Process of Adjustment

Based on a review of claim payments and reserves subsequent to the examination date, the reserve for the above captioned account appears to be reasonable and has been accepted for purposes of this examination.

SUBSEQUENT EVENTS

The Company's subsequent period annual statement for the year ended December 31, 2017 was reviewed. Due to the fact that adverse loss experience was disclosed and reported within the statement, this significant finding was discussed in detail within the "Summary of Significant Findings" section of this report, as loss experience was also a significant issue for some years within the examination period.

Contrary to the Company's operating results for the 2017 year, their first quarter 2018 financial results, performed using Generally Accepted Accounting Principles, reported an improved turnaround to profitability, which the Company's management attributes to changes it has implemented during the past two years.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings (Page 2): It is recommended that the Company maintain its accounts and records on a semi-annual statutory accounting basis and submit them, pursuant to California Insurance Code Section (CICS) 12752(a), semi-annually to the California Department of Insurance (CDI), so that their surplus position can be substantiated, and to ensure they are meeting their minimum surplus level in accordance with CICS 12750(a). In addition, it is recommended that the Company submit its quarterly financial statements, which are performed on a Generally Accepted Accounting Principles basis, to the CDI.

Summary of Significant Findings (Page 2): It is recommended that the Company submit a consolidated business plan to the CDI for the ultimate parent company, Cross Country Home Holdings, Inc. and subsidiaries with pro forma financials and their overall plan to reverse its adverse loss experience.

Previous Report of Examination

None

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and parent's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

______/S/_____________________

Thuan Khong
Examiner-In-Charge
Insurance Examiner
Department of Insurance
State of California

______/S/_____________________

Edward Aros, CFE
Senior Insurance Examiner Supervisor
Department of Insurance
State of California