MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS A2 AND MIG 1 RATINGS TO FLORIDA CITIZENS PROPERTY INSURANCE CORPORATION (CPIC) COMBINED TOTAL OF UP TO $900 MILLION SENIOR SECURED BONDS AND NOTES; OUTLOOK IS STABLE

Global Credit Research - 09 Jun 2011

RATING AND OUTLOOK APPLY TO APPROXIMATELY $3.6 BILLION IN DEBT

Citizens Property Ins. Corp. - High-Risk Acct
State
FL

Moody's Rating

ISSUE		RATING
Series 2011A-2 (Short-Term Notes)		MIG 1
Sale Amount	$150,000,000	
Expected Sale Date	06/28/11	
Rating Description	Revenue	
Senior Secured Bonds, Series 2011A-3 (SIFMA Floating Rate Notes)		A2
Sale Amount	$100,000,000	
Expected Sale Date	06/28/11	
Rating Description	Revenue	
Senior Secured Bonds, Series 2011A-4 Federally Taxable (LIBOR Floating Rate Notes)		A2
Sale Amount	$50,000,000	
Expected Sale Date	06/28/11	
Rating Description	Revenue	
Senior Secured Bonds, Series 2011A-1		A2
Sale Amount	$600,000,000	
Expected Sale Date	06/28/11	
Rating Description	Revenue	

Opinion

NEW YORK, Jun 9, 2011 -- Moody's Investors Service has assigned a long-term rating of A2 to the upcoming sale of Florida Citizens Property Insurance Corporation (CPIC or Citizens) Bonds and a MIG 1 rating to the potential issuance of notes. The transaction may include any or all of the following: Senior Secured Bonds, Series 2011A-1, Senior Secured Bonds, Series 2011A-2 (Short-Term Notes), Senior Secured Bonds, Series 2011A-3 (SIFMA Floating Rate Notes, and Senior Secured Bonds, Series 2011A-4, Federally Taxable (LIBOR Floating Rate Notes). We have assigned a long-term rating of A2 to the Senior Secured Bonds and a rating of MIG 1 to the Short-Term Notes. The bonds are being issued by the CPIC Coastal Account (formerly the High-Risk Account). In total, the Coastal Account Series 2011A bonds and notes are expected to be issued in an amount up to $900 million, and are expected to price the week of June 27.

RATING RATIONALE

The A2 rating and stable outlook reflect strong bondholder protection, including a tested assessment process, a non-impairment covenant by the state, and a debt service reserve fund; Florida's relatively stable property insurance market (compared to the past); healthy cash balances after several years without major storms; and the risk that a very large storm could have unforeseen impacts on the state, policyholders, and bondholders.

CREDIT STRENGTHS

- Strong statutory non-impairment protection for bondholders.

- Five years without major hurricanes has left CPIC in healthy financial shape.

-Assessment base was expanded (nearly quadrupled) by the state legislature in 2007 to match that of the Florida Hurricane Catastrophe Fund (FHCF).

- Continued government support-written in statute that CPIC is a government entity and not a private insurance company.

- Cash-funded debt service reserve fund.

CREDIT CHALLENGES

- Legislative changes made in recent years-which both helped and hurt CPIC-highlight the uncertainty of CPIC's operating environment, including the potential for future legislative actions.

- Lack of capped liability lends uncertainty at top end of risk scale, heightening the potential for growth in post-event debt loads (and related assessments) over the long-term, particularly in an environment of limited capital market access.

- Catastrophe loss recoupment mechanism is highly correlated with that of other Florida insurance entities and could be subject to political alterations in the event of a large storm.

DETAILED CREDIT DISCUSSION

THE FINANCING

The CPIC Coastal Account Bonds, Series 2011A are being issued to provide liquidity to pay claims in the event of a storm. The CPIC anticipates that in the event of a large storm, CPIC would pay claims from cash on hand (including the liquidity provided by these bond proceeds and outstanding pre-event bonds), reinsurance reimbursement from the Florida Hurricane Catastrophe Fund (FHCF), policyholder surcharges, and regular assessments. Before drawing down any bond proceeds, CPIC must sign a draw certificate certifying that it will have sufficient pledged revenues after the draw to repay bondholders. If proceeds are drawn, CPIC would apply for reimbursement from the FHCF. If reimbursement from the FHCF were not available, CPIC would have recourse to its other pledged revenue sources, including its assessment powers, to repay bondholders.

STRONG ASSESSMENT MECHANISM SECURES THE BONDS

Bonds issued by CPIC's Coastal Account and Personal Lines Account and Commercial Lines Account (PLA/CLA) to pay claims after a storm are secured by a strong mandatory assessment process. If there is a deficit, the corporation is mandated to levy varying layers of assessments. Assessments represent an additional layer of collateral beyond the FHCF reimbursements. Regular and emergency assessments are levied on a broad assessment base of almost all property and casualty insurable activity in the State of Florida. The private insurance carriers are required to pay regular assessments to Citizens. Anyone in the state who has fire insurance, home insurance, earthquake insurance, products liability insurance, auto insurance, burglary and theft insurance, etc., would be required to pay the emergency assessment captured on their premium statement. Non-payment of the emergency assessment would cause the policyholder to lose his insurance.

CITIZENS PROPERTY INSURANCE CORPORATION

CPIC is a statutorily-created insurer that acts as an alternative market mechanism for Florida residents unable to procure property insurance at statutorily prescribed terms through the voluntary market. CPIC is the largest property insurer in Florida, with 1.3 million policies, or approximately 26% of the market. All revenues, assets, liabilities, losses and expenses are maintained in three separate accounts (which are kept separate for purposes of calculating deficits and funding claims): (i) Citizens Coastal Account; (ii) the Personal Lines Account (PLA); and (iii) the Commercial Lines Account (CLA). The Personal Lines Account and the Commercial Lines account (PLA/CLA) are combined for credit purposes as well as for the contract with the Florida Hurricane Catastrophe Fund. Creditors of one account do not have a claim against or recourse to the other accounts. CPIC's income is exempt from federal taxation and CPIC qualifies as an issuer of tax-exempt debt.

To pay deficits caused by catastrophe claims following storms, CPIC has a number of different assessments which it must use in statutorily prescribed ways. Most of the assessments are one-time levies and are not intended to be the security for long-term financings. If CPIC experiences losses that are severe enough to use all of the one-time assessment authority, then it is obligated to levy emergency assessments. These assessments can be levied over time and can used to secure post-event bond financing. Emergency assessments can be levied up to a maximum of the greater of 10% of premium or 10% of the deficit per annum.

ASSESSMENTS ARE TAX-LIKE IN NATURE

In the event of a hurricane and a determination of a deficit in any account which is not cured through the one-time assessments, CPIC may issue bonds secured by emergency assessments. A major strength of CPIC lies in the breadth and diversity of this assessment base. The assessment base currently totals more than $33.6 billion, and includes nearly all property and casualty lines of business written in Florida with the exception of medical malpractice, workers compensation and accident and health premiums. The average annual growth rate of the assessment base has been over 8% over the last 15 years. Geographically, the assessment base is also diverse. While three counties in South Florida account for over 30% of the state's residential property exposure risk, policyholders in all of Florida's counties would be assessed on their various lines of insurance in the wake of a significant hurricane. This makes the regular and emergency assessments tax-like in nature. As long as there continues to be insurable activity in Florida, the assessment base is expected to remain strong.

CLAIMS-PAYING ABILITY STRONG

CPIC's Coastal Account had 2010 net income of $461 million on direct written premium of over $1.1 billion. The 2010 year-end surplus was over $2.3 billion. Cash and investments as of December 31, 2010 was over $7.0 billion, including $3.6 billion in pre-event bond proceeds (some of which mature shortly). Total assets were over $7.8 billion. The Coastal Account has claims-paying ability before assessments (and before this pre-event issuance) of over $10.2 billion, including $5.6 billion in liquid resources and $4.0 billion in FHCF reinsurance. In addition, CPIC is authorized to levy assessments in order to cover deficits that may arise as the result of storm damage.

IMPACT OF A MAJOR STORM

A major storm or series of storms would test both the viability of the emergency assessment procedure during a period of great stress and the ability of the Florida economy to withstand such an event or series of events. If a significant hurricane were to strike, the three state-created entities (CPIC, FHCF, and the Florida Insurance Guaranty Association) could all face challenges as they seek to bring large amounts of debt to the market and impose overlapping regular assessments and emergency assessments on a potentially depleted or ravaged assessment base to pay for it. Because the CPIC assessments would be issued not just on property insurance, but on almost all lines of insurance, including auto and business insurance, it would take significant depopulation or lack of any economic activity at all to threaten the assessment base.

CAPITAL MARKET ACCESS

In the event of a major storm event, the Florida Hurricane Catastrophe Fund may have to issue bonds to cover claims up to its statutorily capped liability. If market access is limited, however, and the FHCF cannot issue a par amount large enough to cover all of its reimbursement claims, CPIC and other insurers may not receive the reinsurance reimbursement they were counting on. This could increase the likelihood that CPIC would have to issue debt, or debt with a larger par value. In other words, a market that has limited access presents some possible additional risk to CPIC. The state legislature's decision two years ago to shrink the size of the FHCF and increase FHCF's surplus have lessened the chance that the FHCF may have to issue a very large amount in bonds to cover reimbursement claims.

If the proceeds of the short-term notes being issued by CPIC were drawn down after a storm event, CPIC expects that it would use reimbursement from FHCF to pay the principal on the notes at maturity. The MIG 1 rating on the notes, therefore, relies less on capital market access and more on the functioning of CPIC's claims-paying, reimbursement, and assessment structure in a post-storm scenario.

LEGISLATIVE ACTIONS AFFECT CPIC; POSSIBLE FUTURE LEGISLATIVE ACTIVITY

In January 2007, legislative enactments in the State of Florida altered Citizens' rate setting process, assessment base, and reinsurance protection mechanism among other changes. First, the size of CPIC's assessment base was increased significantly (to over $37 billion from $11.5 billion). Second, Citizens' available reinsurance protection nearly doubled as a result of expanded capacity at the FHCF. In Moody's view, these positive changes were tempered somewhat by the rescission of all rate increases for 2007 and 2008. After expanding the size of the FHCF, the state legislature in 2009 passed a bill to reduce the size again, with the reduction phased in over a number of years. In addition, CPIC was once again allowed to raise its rates, beginning January 1, 2010.

In its 2011 session, the legislature passed a bill that, among other things, reduces the claims-filing deadline after a hurricane from five years to three years. This should help CPIC and private insurance companies.

Property insurance and rates for insurance are hot topics in the state, and there are annual debates in the state legislature, with various results. While the legislative results of last year's session were beneficial to CPIC and FHCF, it is clear that this is a topic that will continue to be debated, and that changes are likely to be made that will affect CPIC. Whether changes made in the future will be positive or negative is unknown at this time.

While the state has a history of involvement with CPIC, and we believe the state could make changes that could have a positive or negative effect on CPIC, we believe the strong statutory non-impairment provisions protect bondholders from state interference.

Outlook

The rating outlook for Citizens Property Insurance Corporation, as well as the Coastal Account and Property and Commercial Lines Account, is stable at this time, reflecting the relatively stable property insurance environment in the state at this time compared to the past, as well as the recent legislative changes and generally positive trend of legislative action at the current time.

What Could Change the Rating--UP

- Reduction in CPIC overall risk exposures relative to its surplus and assessment base

- Imposition of cap on liability of CPIC

What Could Change the Rating--DOWN

- Significant growth in CPIC's exposure to claims relative to surplus and the assessment base

- Reductions in the assessment base of CPIC or changes in the assessment mechanism

- Other legislative actions that have a negative effect on CPIC ability to raise premiums, collect reinsurance, or levy assessments

CPIC ratings were assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment. These attributes were compared against other issuers both within and outside of CPIC's core peer group and CPIC's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, and public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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