MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.mid.state.ms.us

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 359-2474

December 16, 2010

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

USA Insurance Company
c/o Alan Moore, Attorney for the Company
P.O. Box 14167
Jackson, MS 39236

RE: Report of Examination as of December 31, 2008

Dear Mr. Moore:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY Joel R Jones
Joel R. Jones
Special Assistant Attorney General

MC/JRJ/bs
Encls. Order w/exhibit

BEFORE THE MISSISSIPPI INSURANCE DEPARTMENT

IN RE: REPORT OF EXAMINATION OF USA INSURANCE COMPANY **CAUSE NO. 10-6035**

ADMINISTRATIVE ORDER

THIS MATTER came on for consideration before the Commissioner of Insurance (hereinafter "Commissioner"), chief officer of the Mississippi Insurance Department (hereinafter "Department") in the Department's offices at 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi. The Commissioner, having fully considered and reviewed the Report of Examination, together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

1.

The Department has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

2.

USA Insurance Company (hereinafter the "Company") is a Mississippi-domiciled company licensed to write property and casualty and life, accident and health lines of business.

FINDINGS OF FACT

3.

The Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of the Company and appointed Joseph R. May, Examiner-In-Charge, to conduct said examination.

4.

On or about October 30, 2009, the draft Report of Examination concerning the Company for the period of January 1, 2004, through December 31, 2008, was submitted to the Department by Joseph R. May, Examiner-In-Charge.

5.

That on or about February 3, 2010, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report. The Department initially allowed the Company a 30-day period to submit any rebuttal to the draft report, but later extended the time to respond to June 10, 2010. The Department received the Company's first written response on or about June 10, 2010, and another on or about November 2, 2010. Certain events occurring subsequent to the date the Report of Examination was submitted to the Department, and measures taken or to be taken by the Company, are noted below.

6.

Pursuant to CRD 1 on page 36 of the Report of Examination, the Department has reviewed and accepted the amended written agreement between the Company and Inshares Capital Corporation as submitted to the Department, subject to a specific settlement date being provided so as to comply with SAP 96. The Company is on notice that the Department will audit performance under the agreement.

7.

Pursuant to CRD 2 on page 36 of the Report of Examination, the Department accepts on a going-forward basis the written agreement between the Company and USA Salvage Company, Inc. However, a GAAP audit will be required before consideration will be given to admitting the Company's investment in USA Salvage Company, Inc. as an asset.

8.

Pursuant to CRD 3 on page 36 of the Report of Examination, the Company has submitted an audited financial statement as of December 31, 2008, for Inshares Capital Corporation, its ultimate controlling person.

9.

Pursuant to CRD 4 on page 36 of the Report of Examination, the Department approves on a going-forward basis any remaining loans made to various family members. The Company is on notice that if it wishes to amend the terms of any such remaining loans, it obtains the prior written approval of the Department.

10.

Pursuant to CRD 8 on page 37 of the Report of Examination, the Department acknowledges receipt of the requested fidelity bond and errors and omissions policy in the amount of $225,000.00.

11.

Pursuant to CRDs 10 through 13, and 28 and 29 on pages 37 and 40 of the Report of Examination, the Department acknowledges that the Company states that it increased its reserves by $1,158,218.00 as of December 31, 2009, and is in the process of reallocating assets and expenses between its two lines of business. The Company and the Department will continue to seek a resolution of the issues set forth in the aforementioned CRDs.

12.

Pursuant to CRD 14 on page 38 of the Report of Examination, the Company states it has taken specific steps to ensure that all persons authorized to sell, solicit and negotiate insurance on its behalf are appropriately licensed and appointed by the Company.

13.

Pursuant to CRD 16 on page 38 of the Report of Examination, the Company provided evidence that it has paid policyholders the face amounts of all life policies issued in the State of Georgia that, according to the Company's records, were outstanding as of December 31, 2008.

14.

Pursuant to CRDs 19, 20 and 21 on pages 38 and 39 of the Report of Examination, the Company has provided documentation to the Department evidencing its loan to Ruby K. Higdon has been paid in full and that this asset has been replaced by a certificate of deposit from Hancock Bank in the amount of $505,000.00.

15.

Pursuant to CRDs 22 and 23 on page 39 of the Report of Examination, the Department acknowledges that it has accepted the form of the warranty deed and mortgage documentation submitted by the Company to the Department for review. Further, the Department will acknowledge the Company's proper execution and filing of these documents for the Kent K. Higdon mortgage loan upon receipt of documentation of same. The Department also acknowledges that the Company has obtained title insurance on the property collaterizing the Kent K. Higdon mortgage loan.

16.

The Department approves on a going-forward basis the existing mortgage loans to Higdon family members as same were revised pursuant to CRD 24.

17.

Pursuant to CRD 27 on pages 39 and 40 of the Report of Examination, the Department acknowledges that the Company has provided the subject appraisals to the Department.

CONCLUSIONS OF LAW

18.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's responses, and all relevant examiner work papers, that the Report of Examination of

USA Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Department shall continue to hold the content of this report as private and confidential information for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that the Company take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

SO ORDERED, this the 16th day of December 2010.

MIKE CHANEY
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Insurance Department, was sent by certified mail, postage pre-paid, return receipt requested, on this the 16th day of December 2010, to:

USA Insurance Company
c/o Alan Moore, Attorney for the Company
P.O. Box 14167
Jackson, MS 39236

Joel R. Jones

Joel R. Jones, MSB#8474
Special Assistant Attorney General
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577

Mississippi Insurance Department

Report of Examination

of

USA Insurance Company
2104 Hwy 90
Gautier, Mississippi 39553

As of December 31, 2008

NAIC Company Codes 83666 & 10313
NAIC ETS No. MS029-C60

USA Insurance Company
Table of Contents
December 31, 2008

EXAMINER AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Mississippi,

County of Madison,

Joseph R. May, CPA, CFE, CIE, CMA being duly sworn, states as follows:

1. I have authority to represent the State of Mississippi in the examination of USA Insurance Company as of December 31, 2008.

2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

3. I have prepared the examination report, and the examination of USA Insurance Company, as of December 31, 2008, was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

Joseph R. May

Joseph R. May, CPA, CFE, CIE, CMA
Examiner-In-Charge

Subscribed and sworn before me by Joseph R. May on 12-6-, 2010.

(SEAL)

Debbie Byrd

Notary Public

STATE OF MISSISSIPPI
NOTARY PUBLIC
ID # 67300
DEBBIE BYRD
Commission Expires
Sept. 10, 2014
MADISON COUNTY

My commission expires 9-10-14

MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

501 N. WEST STREET, SUITE 1001
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www.mid.state.ms.us

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-1061
FAX: (601) 359-1076

October 30, 2009

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination as of December 31, 2008, has been conducted of the affairs and financial condition of:

USA INSURANCE COMPANY
(NAIC COMPANY CODES 83666 & 10313)
2104 Hwy. 90
Gautier, Mississippi 39553

This examination was conducted in accordance with Miss. Code Ann. § 83-5-201 et seq. The examination was performed at the statutory home office of USA Insurance Company. The report of examination is herewith submitted.

INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered USA Insurance Company (USA or Company) operations and financial condition from January 1, 2004, through December 31, 2008, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The MID engaged Carr, Riggs & Ingram, LLC to perform the financial and market conduct sections of the examination, Merlinos and Associates, Inc. to perform the property and casualty actuarial section of the examination and Taylor, Walker and Associates to perform the life actuarial section of the examination. The MID also engaged Wise, Carter, Child & Caraway, P.A. to provide legal support for this examination.

For purposes of this examination report, the examination period is defined as January 1, 2004 through December 31, 2008, and the examination date is defined as December 31, 2008. USA was previously examined by the MID as of December 31, 2003.

SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with applicable laws. A full scope market conduct examination was not performed; however, specific areas of the Company's market conduct were reviewed.

This examination was conducted in accordance with procedures recommended by the MID and the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*.

Reporting in the **Comments on Financial Statements** and **Comments, Recommendations and Directives** sections of the report are by exception only. Items considered immaterial receive little or no comment for purposes of this report.

HISTORY OF THE COMPANY

United General Life Insurance Company was organized and incorporated as a domestic limited insurer under the laws of the State of Arizona on June 7, 1973.

On March 7, 1974, the Company's name was changed to United General Reinsurance Company of Arizona.

On June 26, 1986, the Company's name was changed from United General Reinsurance Company of Arizona to Union Savings Life Insurance Company.

On February 20, 1992, the Company redomesticated from Arizona to Mississippi and simultaneously changed its name from Union Savings Life Insurance Company to Union Savings American Insurance Company. The Company was licensed to write life and health lines of business.

On December 1, 1992, the Company received an amended Certificate of Authority to write property and casualty lines of business.

On July 10, 2000, the Company changed its principal location from Jackson, Hinds County, Mississippi to Gautier, Jackson County, Mississippi.

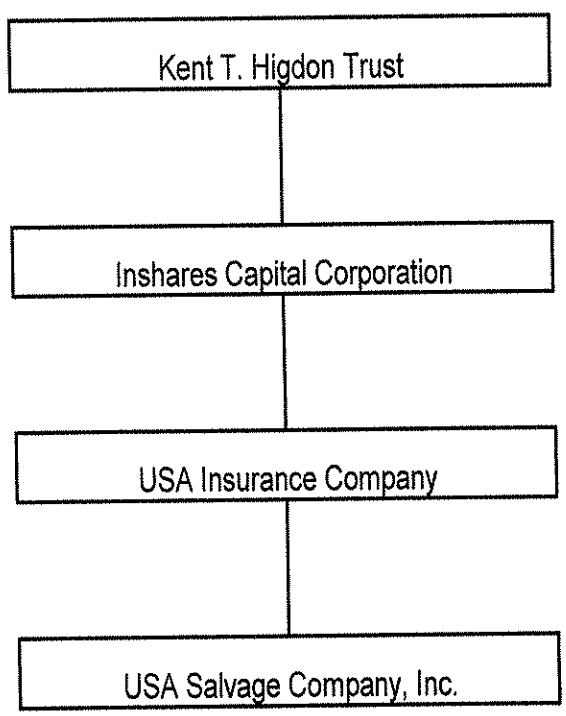
On August 6, 2001, the Company amended the Articles of Association to change the name of the Company to USA Insurance Company.

HOLDING COMPANY STRUCTURE

Organizational Chart

The Company was a member of an insurance holding company system as defined in Miss. Code Ann., § 83-6-1. The Company was required to file with the MID Holding Company Registration Statement (HCRS) in accordance with Miss. Code Ann., § 83-6-5 and § 83-6-9. These filings set forth material changes in structure, identity or relationship of affiliates and any material transactions by and between the Company and its affiliates.

The Company appears to have filed with the Mississippi Insurance Department documentation relating to Miss. Code Ann., § 83-6-5 and § 83-6-9 for the years under examination. An organization chart depicting the direct line of ownership at December 31, 2008, is presented below.



Following is a brief description of each of the entities listed above:

Kent T. Higdon Trust

This trust is the owner of the capital stock of Inshares Capital Corporation (Inshares). Pursuant to a custodial arrangement, Kent T. Higdon serves as the custodian for this Trust, the beneficiaries of which are the children of Kent T. and Ruby Higdon.

Inshares Capital Corporation

This company was incorporated on August 31, 1987, as a holding company, under the laws of the State of Mississippi. The company is wholly owned by the Kent T. Higdon Trust.

USA Insurance Company (USA)

This company is a wholly owned subsidiary of Inshares Capital Corporation and is a multi-line insurance company offering various life, accident and health, and property and casualty insurance products.

USA Salvage Company, Inc.

This company was incorporated on May 9, 2006 and is a wholly owned subsidiary of USA Insurance Company (USA).

Related Party and Other Transactions

Part 2 of Schedule Y of the 2008 annual statement reflects transactions with affiliates including USA Salvage Company, Inc. and Inshares Capital Corporation. It was noted that the Company had a general agent insurance agreement with Inshares Capital Corporation.

Upon review of the general agent insurance agreement between USA and Inshares Capital Corporation, it was noted that the agreement does not appear to be in compliance with SSAP numbers 25 and 96, specifically regarding payment structure and terms. Further, it was noted that the name of the Company as defined in the general agent insurance agreement is Union Savings American Insurance Company, which is no longer the legal name of the Company. Based upon a review of the Company's operating structure coupled with our understanding of Inshares Capital Corporation, the Company's parent, it does not appear that the general agent insurance agreement between the two entities is in compliance with Miss. Code Ann. § 83-6-21, nor does it appear that the services as defined in the written general agent insurance agreement are being provided by the Company's parent. The Company should correct the noted deficiencies and file the amended agreement for approval with the MID pursuant to Miss. Code Ann. § 83-6-21.

During the course of the examination certain transactions were noted between USA and its wholly owned subsidiary, USA Salvage Company, Inc. Subsequent to the examination date, pursuant to correspondence from the Company and as indicated on the Company's March 31, 2009 quarterly statement filing, the Company reclassified outstanding receivable balances from USA Salvage Company, Inc. in the amount of $172,683 to investment in the subsidiary via an increase in additional paid in capital. The amount was non-admitted on the March 31, 2009 quarterly statement. SSAP numbers 25 and 96 direct how transactions between affiliates are to be recorded and maintained. Pursuant to these SSAPs, transactions between related parties must be in the form of a written agreement and provide for timely settlement of amounts owed, with a specified due date, among other relevant requirements. The Company should fully comply with SSAP numbers 25 and 96 as it relates to transactions between USA and USA Salvage Company, Inc., which includes obtaining a written agreement between USA and USA Salvage Company, Inc. Further, Pursuant to a letter from the MID to the Company, dated February 13, 2003, the MID requires the Company to make a written request and obtain written approval prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions. No evidence of written requests or approvals was noted with regard to related party transactions. The Company should provide written requests and seek written approval from the MID prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions.

It was noted that as of the date of this examination report, the Company has not filed an audited financial statement of its ultimate controlling person pursuant to the requirements within Miss. Code Ann. § 83-6-1 through § 83-6-43 and as further detailed in MID Regulation 92-103. The Company should file audited financial statements of the Company's ultimate controlling person.

It was noted that loans were made to various family members during the time period covered by this examination. These loans combined to a material amount for financial statement reporting purposes. At times these loans did not appear to be performing and were non-admitted on the annual statements as filed with the MID. As referenced above, pursuant to a letter from the MID to the Company, dated February 13, 2003, the MID requires the Company to make a written request and obtain written approval prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions. No evidence of written requests or approvals was noted with regard to related party transactions. The Company should provide written requests and seek written approval from the MID prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions and monitor the related party loans closely to ensure that all loans are performing and current in accordance with SSAP numbers 5 and 25.

The Company invested in debenture bonds of USA Premium Finance Company, an affiliated company, prior to the time period covered by this examination. These bonds were non-admitted for financial statement reporting purposes and were written off during the time period covered by this examination. Based upon a review of records maintained by the Mississippi Secretary of State, the last Annual Report filed by USA Premium Finance Company with the Mississippi Secretary of State was 1992. The records further indicate that USA Premium Finance Company was administratively dissolved on October 8, 1993. Prior to being written off, these two debenture bonds from USA Premium Finance Company were included on the financial statements of the Company as non-admitted assets in the combined amount of $653,528.

It was noted that the Company reported on the 2008 Life, Accident and Health Annual Statement, Schedule D – Part 4 an investment in common stock (Summit Partners, LLC) of parents, subsidiaries and affiliates that was sold, redeemed or otherwise disposed of during the year. It was also noted that neither Summit Partners, LLC nor USA Premium Finance Company were listed as affiliates pursuant to the 2008 HCRS filed with MID. Upon review of the invested amounts, it appears that both meet the materiality reporting requirements of Miss. Code Ann. § 83-6-7. As of the date of this report, it does not appear that the Company has recouped any of the money that was paid to these entities for investment purposes. The Company should file the HCRS's completely and accurately in accordance with relevant Mississippi Code and MID regulations.

It was noted that USA acquired Keesler Insurance Services, Inc.'s auto insurance business that was generated from four (4) of Keesler's locations during the period covered by this examination. Upon review of this transaction, it appears that the transaction qualifies as a material transaction pursuant to Miss. Code Ann., § 83-5-353. Based upon this, a report including the transaction should have been filed with the MID pursuant to Miss. Code Ann., § 83-5-351. The report is due within fifteen (15) days after the end of the calendar month in which the transaction occurred. Additionally, a copy of the report should have been filed with the NAIC. The Company should review its internal policies and procedures and make any appropriate changes to ensure that all future material transactions are timely filed with the MID. The Company should also provide an update to the MID regarding the status of this transaction.

MANAGEMENT AND CONTROL

Stockholders

The Company had 600,000 of its 5,000,000 authorized shares of $1 par value common stock issued and outstanding at the examination date. The common stock of the Company was 100% owned by Inshares Capital Corporation.

The Company did not pay any dividends during the time period covered by this examination.

Board of Directors

The Articles of Association and Bylaws vest the management and control of the Company's business and affairs with the Board of Directors (Board). At December 31, 2008, the members of the Board along with their place of residence and principal occupation were as follows:

Name and Place of Residence	Principal Occupation
Kent T. Higdon Pascagoula, Mississippi	President - USA
John Pearson Stephens Moss Point, Mississippi	Vice-President - USA
Cecile Hinson Stephens Moss Point, Mississippi	Secretary / Treasurer - USA

Officers

The officers of the Company held the following positions at December 31, 2008:

Name	Position
Kent T. Higdon	President
John Pearson Stephens	Vice-President
Cecile Hinson Stephens	Secretary / Treasurer

It was noted that John Pearson Stephens was deceased as of December 31, 2008. Mr. Stephens was still listed as both an officer and director of the Company. Miss. Code Ann. § 83-19-13 requires insurance companies to maintain a minimum of three board members. It was noted that the Company's March 31, 2009 quarterly statement filed with the MID indicated that William T. Higdon replaced Mr. Stephens as an officer and director of the Company. However, the statement did not properly include the "#" symbol by William T. Higdon's name, indicating that he was a new officer and director. Additionally, the Company has not filed a biographical affidavit for William T. Higdon, pursuant to Miss. Code Ann. § 83-19-16. The Company should file a biographical affidavit with the MID pursuant to Miss. Code Ann. § 83-19-16.

Committees

The Company did not have any active committees during the examination period.

Conflict of Interest

The Company maintained a policy whereby disclosure was made to the Board of Directors of any material interest or affiliation on the part of any officer or director that was a conflict, or would likely be a conflict, with the official duties of such persons. Written statements were signed annually by all officers and members of the Board of Directors.

CORPORATE RECORDS

The minutes of the meetings of the Stockholders and Board of Directors prepared during the period under examination were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included the approval and support of the Company's transactions and events, as well as the review of its audit, actuarial and examination reports.

FIDELITY BOND AND OTHER INSURANCE

The NAIC suggested minimum amount of fidelity insurance coverage for a company of this size is $225,000. The Company had no fidelity bond or errors and omissions coverage in effect at December 31, 2008. It is recommended that the Company obtain fidelity coverage in an amount equal to at least the NAIC suggested minimum as recommended by the NAIC *Financial Condition Examiners Handbook.*

DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

Upon completion of one year of service, employees were eligible for one week of paid vacation and to participate in the 401(k) plan. There were no programs for which provisions were included in the financial statements of the Company.

REINSURANCE

The Company maintained stop-loss reinsurance on its auto lines business. The Company's reinsurance agreement was reviewed and the treaty did not contain any provisions that would be considered unusual.

ACCOUNTS AND RECORDS

The Company utilized a computerized accounting system on which general ledger information was maintained. The general ledger detail was traced to the December 31, 2008 annual statements.

The Company utilized three separate computer software programs: Quicken, MAS90 and Atlas. MAS90 was used to maintain the general ledger information for the life business. Atlas maintained the general ledger information for the property and casualty business. Quicken was utilized to write checks, balance bank accounts and create transaction registers for the bank accounts.

The Company is audited annually by a CPA firm. CPA work papers were incorporated into the review of the financial statements as deemed appropriate and subsequent to testing by the examiners.

It was noted that during the period covered by this examination, the Company was late filing numerous regulatory filings. The Company should review its current policies and procedures and implement appropriate measures to ensure that its annual statements are timely and accurately filed in accordance with Miss. Code Ann. § 83-5-55 and that other filings are made in a timely manner pursuant to applicable laws.

The Company is licensed as a multi-line insurance company pursuant to Miss. Code Ann. § 83-19-31(b), which requires the Company to maintain a minimum capital and surplus of $600,000 and $900,000, respectively. Pursuant to Miss. Code Ann. § 83-5-55, the Company files an NAIC Life, Accident and Health Annual Statement and an NAIC Property and Casualty Annual Statement for each of the respective business lines. The Company is also required to file risk-based capital (RBC) reports for each of its NAIC annual statement filings pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.

As indicated above, the MID measures the adequacy of a company's capital by its risk-based capital ratio (the ratio of its total capital, as defined, to its risk-based capital). These requirements provide a measurement of minimum capital appropriate for an insurance company to support its overall business operations based upon its size and risk profile which considers (i) asset risk, (ii) insurance risk, (iii) interest rate risk, and (iv) business risk. An insurance company's risk-based capital is calculated by applying a defined factor to various statutory-based assets, premiums, and reserve items, wherein the factor is higher for items with greater underlying risk. Mississippi Statutes provide levels of progressively increasing regulatory action for remedies when an insurance company's risk-based capital ratio falls below 2:1. As of December 31, 2008, and prior to consideration of any adjustments made during the course of this examination, the Company filed the following RBC reports:

Annual Statements:	RBC
NAIC Life, Accident and Health Annual Statement	8.45:1*
NAIC Property and Casualty Annual Statement	.92:1*

* *This RBC ratio calculation was provided by the Company and does not reflect examination adjustments contained within this report.*

According to RBC reports filed by the Company with the MID, the Company was not in compliance with Miss. Code Ann. § 83-5-401 through § 83-5-427, which requires that the Company maintain certain minimum RBC ratios. The Company should inject funds into the NAIC Property and Casualty Annual Statement in an amount sufficient to cure the action level issue currently experienced. The amount required to cure should take into account any adjustments made as a result of this examination.

As indicated above, the Company's RBC ratio, as of December 31, 2008, produced from the NAIC Property and Casualty Annual Statement filing was .92:1. This RBC ratio is classified (prior to examination adjustments), pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427, as Authorized Control Level (ACL). Pursuant to Miss. Code Ann. § 83-5-409(2), in the event of an ACL event, the Commissioner of Insurance shall require the insurer to prepare and submit an RBC plan among other stated requirements. Based upon Miss. Code Ann. § 83-5-409(2), the Company should file an RBC plan contemplating the adjustments as noted in this examination report along with meeting the other requirements in the relevant Mississippi Statutes.

As discussed above, the Company is one legal entity that files two separate NAIC annual statements and records a due from or due to the respective annual statement to allocate asset amounts to the statements. Currently the NAIC Property and Casualty Annual Statement reports the majority of premium revenue while the NAIC Life, Accident and Health Annual Statement reports the majority of the assets. The Statements are balanced by an intra-company transaction that results in a material receivable and management fee expense on the NAIC Property and Casualty Annual Statement and a material payable and management fee income on the NAIC Life, Accident and Health Annual Statement. Maintaining accounting records in this fashion results in several regulatory monitoring and financial reporting issues, one of which is that it reports a fee income on the Life, Accident and Health Annual Statement as a result of a transaction with itself.

The Company should use cost allocation methodology such as the guidance in SSAP number 70, which addresses, in part, allocation methodologies of shared expenses. In general, the guidance states that specific identification of an expense with an activity is most accurate. However, where specific identification is not feasible allocation of expenses should be based upon pertinent factors such as studies of employee activities, salary ratios or similar analysis. This allocation approach coupled with proper asset allocation to each statement would eliminate the need for intra-company accounting entries that have the result of reporting income and expense as a result of transactions within the Company.

The Company should maintain separate accounting records that seek to match the assets that support the insurance liabilities in each of the respective NAIC Annual Statement filings. This would allow for monitoring in accordance with Miss. Code Ann. § 83-5-401 through § 83-5-427 and application of the numerous NAIC ratios that are designed to test the business by annual statement type.

STATUTORY DEPOSITS

The Company's statutory deposits with the state of Mississippi complied with Miss. Code Ann. § 83-19-31(2) and § 83-7-21. The following chart displays the Company's deposits at December 31, 2008.

Description	State Deposited	Fair Value
Certificate of Deposit	Mississippi	$ 400,000
Certificate of Deposit	Georgia	25,547
Total		$ 425,547

USA INSURANCE COMPANY
FINANCIAL STATEMENTS
(Life, Accident and Health Filing)

EXAMINATION AS OF DECEMBER 31, 2008

Introduction to Statutory Financial Statements

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2008, a Summary of Operations for year ended December 31, 2008, a Reconciliation of Surplus and Other Funds for examination period ended December 31, 2008, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2008.

USA Insurance Company
(Life, Accident and Health Filing)

Statement of Assets, Liabilities, Surplus and Other Funds - Statutory

December 31,		2008
Assets		
Mortgage loans	$	1,685,533
Real estate		1,082,079
Cash and short-term investments		4,501,421
Contract loans		14,771
Investment income due and accrued		18,003
Electronic data processing equipment		17,019
Aggregate write-ins for invested assets (accounts receivable)		86,852
Total assets	$	7,405,678
Liabilities, Surplus and Other Funds		
Aggregate reserve for life contracts	$	353,629
Aggregate reserve for accident and health contracts		228,918
Policy and contract claims: life and accident and health		9,750
General expenses due and accrued		112,817
Current federal income taxes		50,000
Amounts withheld or retained by company as agent or trustee		229,206
Asset valuation reserve		110,797
Aggregate write-ins for liabilities (due to property and casualty division)		5,231,512
Total liabilities		6,326,629
Common capital stock		600,000
Gross paid in and contributed surplus		1,036,893
Unassigned funds (surplus)		(557,844)
Total surplus		479,049
Total Capital and Surplus		1,079,049
Total Liabilities, Surplus and Other Funds	$	7,405,678

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page10.

USA Insurance Company
(Life, Accident and Health Filing)

Summary of Operations - Statutory

For the Year Ended December 31,		2008
Premiums earned	$	593,239
Net investment income		(39,132)
Aggregate write-ins for miscellaneous income (Management fee income - P&C Division)		4,657,774
Total income		5,211,881
Increase (decrease) in aggregates reserves		3,637
Death benefits		12,600
Disability benefits		48,665
Surrender benefits and other fund withdrawals		4,907
Commission on premiums		89,516
General insurance expenses		4,215,960
Insurance taxes, licenses and fees		371,540
Total expenses		4,746,825
Net gain from operations before federal income taxes and capital gains (losses)		465,056
Less: Federal income taxes incurred		79,551
Net realized capital gains (losses)		(545,528)
Net income (loss)	$	(160,023)

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page 10.

Reconciliation of Surplus and Other Funds - Statutory

For the examination period ended December 31, 2008

	2004	2005	2006	2007	2008
Surplus and other funds beginning of the year	$ 1,714,995	$ 2,009,946	$ 2,343,750	$ 2,998,248	$ 2,194,242
Net income	305,987	484,738	407,814	(18,374)	(160,023)
Change in net unrealized capital gains or (losses)	137,245	46,933	185,615	-	-
Change in net deferred income tax	71,735	(100,651)	(66,075)	-	-
Change in non-admitted as assets and related items	(188,332)	(146,483)	58,238	198,386	566,554
Change in asset valuation reserve	(31,682)	111,577	68,907	(7,425)	28,416
Aggregate write-ins for gains and losses in surplus	(2)	(62,310)	(1)	(976,593)	(1,000,000)
Examination adjustments directly to surplus		-	-	-	(550,140)
Surplus and other funds, end of the year	$ 2,009,946	$ 2,343,750	$ 2,998,248	$ 2,194,242	$ 1,079,049

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page 10.

Note 2: The amounts reflected in the above table represent amounts obtained from annual statements filed for each of the respective years and includes current examination adjustments in the 2008 column.

Reconciliation of Examination Adjustments to Surplus - Statutory

December 31, 2008

	Annual Statement Amount	Examination Amount	Increase (decrease) to surplus
Assets			
Mortgage loans	$ 2,191,033	$ 1,685,533	$ (505,500)
Real estate	1,126,719	1,082,079	(44,640)
Liabilities			
Aggregate reserves for life contracts	307,642	353,629	(45,987)
Total examination adjustments effecting unassigned surplus			(596,127)
Capital and Surplus per 2008 annual statement			1,675,176
Capital and Surplus per exam			$ 1,079,049

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page 10.

USA INSURANCE COMPANY
FINANCIAL STATEMENTS
(Property and Casualty Filing)

EXAMINATION AS OF DECEMBER 31, 2008

Introduction to Statutory Financial Statements

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2008, a Statement of Income for year ended December 31, 2008, a Reconciliation of Surplus and Other Funds for examination period ended December 31, 2008, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2008.

USA Insurance Company
(Property and Casualty Filing)

Statement of Assets, Liabilities, Surplus and Other Funds - Statutory

December 31,		2008
Assets		
Real estate	$	597,436
Cash and short-term investments		(105,228)
Uncollected premium		1,825,077
Aggregate write-ins for invested assets (due from life division)		5,248,280
Total assets	$	7,565,565
Liabilities, Surplus and Other Funds		
Losses	$	4,156,827
Loss adjustment expenses		8,385
Commissions payable		25,630
Other expenses		71,956
Current federal income taxes payable		100,000
Unearned premiums		2,707,588
Total liabilities		7,070,386
Unassigned funds (surplus)		495,179
Surplus as regards policyholders		495,179
Total liabilities, surplus and other funds	$	7,565,565

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page 10.

USA Insurance Company
(Property and Casualty Filing)

Statement of Income - Statutory

For the Year Ended December 31,	2008
Premiums earned	$ 14,374,022
Losses incurred	9,045,650
Loss adjustment expenses incurred	(3,501)
Other underwriting expenses incurred	6,343,194
Total underwriting deductions	15,385,343
Net underwriting loss	(1,011,321)
Net investment income earned	59,690
Net investment gain	59,690
Aggregate write-ins for miscellaneous income:	
Billing fees	687,934
Policy fees	301,935
Other salvage and subrogation income	114,333
Reinstatement fees	27,330
SR22 and NSF fees	29,085
Miscellaneous	36,920
Total other income	1,197,537
Net income before federal income taxes	245,906
Federal income taxes	100,000
Net income	$ 145,906

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page 10.

Reconciliation of Surplus and Other Funds - Statutory

For the examination period ended December 31, 2008

	2004	2005	2006	2007	2008
Surplus and other funds beginning of the year	$ 2,627,507	$ 2,750,221	$ (401,171)	$ 598,766	$ (168,654)
Net income	177,305	(3,701,212)	1,508,807	(1,126,903)	145,906
Change in net deferred income tax	81,216	580,023	(519,569)	-	-
Change in non-admitted as assets and related items	5,863	(30,204)	10,697	36,612	(482,073)
Aggregate write-ins for gains and losses in surplus	(141,670)	1	2	322,871	1,000,000
Surplus as regards policyholders, end of year	$ 2,750,221	$ (401,171)	$ 598,766	$ (168,654)	$ 495,179

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page 10.

Note 2: The amounts reflected in the above table represent amounts obtained from annual statements filed for each of the respective years and includes current examination adjustments in the 2008 column.

Reconciliation of Examination Adjustments to Surplus - Statutory

December 31, 2008

	Annual Statement Amount	Examination Amount	Increase (decrease) to surplus
Liabilities			
Losses	$ 3,056,827	$ 4,156,827	$ (1,100,000)
Federal income taxes payable	-	100,000	(100,000)
Other expenses	-	71,956	(71,956)
Total examination adjustments effecting unassigned surplus			(1,271,956)
Surplus, as regards policyholders per 2008 annual statement			1,767,135
Surplus, as regards policyholders per exam			$ 495,179

For purposes of presenting this financial statement, the intra-company balancing system utilized by the Company to allocate assets, liabilities, revenues and expenses between the life, accident and health filing and the property and casualty filing was not altered. These intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on pages 22 through 25. The issues and recommendations regarding this methodology are discussed further on page 10.

USA INSURANCE COMPANY
FINANCIAL STATEMENTS
(Combined Life, Accident and Health Filing and Property and Casualty Filing)
EXAMINATION AS OF DECEMBER 31, 2008

Introduction to Statutory Financial Statements

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2008, a Summary of Operations for year ended December 31, 2008, a Reconciliation of Surplus and Other Funds for examination period ended December 31, 2008, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2008.

Intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on the following pages. The issues and recommendations regarding this methodology are discussed further on page 10.

USA Insurance Company

(Combined Life, Accident and Health Filing and Property and Casualty Filing)

Statement of Assets, Liabilities, Surplus and Other Funds - Statutory

December 31,		2008
Assets		
Mortgage loans	$	1,685,533
Real estate		1,679,515
Cash and short-term investments		4,396,193
Contract loans		14,771
Investment income due and accrued		18,003
Uncollected premiums		1,825,077
Electronic data processing equipment		17,019
Aggregate write-ins for invested assets		103,620
Total assets	$	9,739,731
Liabilities, Surplus and Other Funds		
Aggregate reserve for life policies and contracts	$	353,629
Aggregate reserve for accident and health policies		228,918
Losses		4,156,827
Loss adjustment expenses		8,385
Policy and contract claims: life and accident and health		9,750
Commissions payable		25,630
Other expenses		71,956
Current federal income taxes payable		150,000
Unearned premiums		2,707,588
General expenses due and accrued		112,817
Amounts withheld or retained by company as agent or trustee		229,206
Asset valuation reserve		110,797
Total liabilities		8,165,503
Common capital stock		600,000
Gross paid in and contributed surplus		1,036,893
Unassigned funds (surplus)		(62,665)
Total surplus		974,228
Total Capital and Surplus		1,574,228
Total liabilities, surplus and other funds	$	9,739,731

USA Insurance Company
(Combined Life, Accident and Health Filing and Property and Casualty Filing)
Summary of Operations - Statutory

For the Year Ended December 31,	2008
Premiums earned	$ 14,967,261
Net investment income	20,558
Aggregate write-ins for miscellaneous income	1,203,989
Total income	16,191,808
Losses incurred	9,045,650
Loss expenses incurred	(3,501)
Other underwriting expenses incurred	1,691,872
General insurance expenses	4,215,960
Commissions on premiums	89,516
Increase in aggregates reserves	3,637
Insurance taxes, licenses and fees	371,540
Disability benefits	48,665
Death benefits	12,600
Surrender benefits and other fund withdrawals	4,907
Total expenses	15,480,846
Net gain from operations before federal income taxes and capital gains (losses)	710,962
Less: Federal income taxes incurred	(179,551)
Net realized capital gains (losses)	(545,528)
Net income	$ (14,117)

Reconciliation of Surplus and Other Funds - Statutory

For the examination period ended December 31, 2008

	2004	2005	2006	2007	2008
Surplus and other funds beginning of the year	$ 4,342,502	$ 4,760,167	$ 1,942,579	$ 3,597,014	$ 2,025,588
Net income	483,292	(3,216,474)	1,916,621	(1,145,277)	(14,117)
Change in net unrealized capital gains or (losses)	137,245	46,933	185,615	-	-
Change in net deferred income tax	152,951	479,372	(585,644)	-	-
Change in non-admitted as assets and related items	(182,469)	(176,687)	68,935	234,998	84,481
Change in asset valuation reserve	(31,682)	111,577	68,907	(7,425)	28,416
Aggregate write-ins for gains and losses in surplus	(141,672)	(62,309)	1	(653,722)	-
Examination adjustments directly to surplus	-	-	-	-	(550,140)
Capital and surplus	$ 4,760,167	$ 1,942,579	$ 3,597,014	$ 2,025,588	$ 1,574,228

Note: The amounts reflected in the above table represent amounts obtained from annual statements filed for each of the respective years and includes current examination adjustments in the 2008 column.

Reconciliation of Examination Adjustments to Surplus - Statutory

December 31, 2008

		Annual Statement Amount		Examination Amount		Increase (decrease) to surplus
Assets						
Mortgage loans	$	2,191,033	$	1,685,533	$	(505,500)
Real estate		1,724,155		1,679,515		(44,640)
Liabilities						
Aggregate reserve for life contracts		307,642		353,629		(45,987)
Losses		3,056,827		4,156,827		(1,100,000)
Federal income taxes payable		50,000		150,000		(100,000)
Other expenses		-		71,956		(71,956)
Total examination adjustments effecting unassigned surplus						(1,868,083)
Capital and surplus per 2008 annual statement						3,442,311
Capital and surplus per exam					$	1,574,228

MARKET CONDUCT ACTIVITIES

A full market conduct examination was not performed; however, limited procedures regarding particular areas of the Company's market conduct activities were performed. The specific areas examined include the following: advertising, agents' licensing, claims, complaints and policy forms. Exceptions noted during the course of this review are discussed below.

Agents' Licensing

During the review of agents licensing, it was noted that the Company only had two agents producing for the life, accident and health business. It was noted that both agents appeared to be licensed, however, neither agent appeared to be appointed by the Company. The Company should ensure that all persons authorized to sell, solicit or negotiate insurance be appropriately appointed by the Company pursuant to Miss. Code Ann. § 83-17-5.

Policy Forms and Underwriting

Based upon procedures performed during the course of the examination, the Company appeared to have the appropriate licensure to issue its products. As a component of the liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the information on the face of the application was reviewed in order to ensure that all pertinent information on the applications appeared complete and accurate.

Claims

The company sells life insurance policies primarily to employees of a local business through an arrangement with a credit union that collects the premiums from the employees primarily through payroll deductions. During performance of examination procedures, it was noted that the Company did not have an internal system for tracking cash value and extended term insurance (ETI) benefits in accordance with the life policies issued by the Company. The Company did book a bulk ETI reserve amount for financial statement reporting purposes, but did not maintain individual records for cash value or ETI for each insured. Pursuant to Miss. Code Ann. § 83-5-207, the Company should maintain adequate records for examination purposes for policyholders with cash value or policyholders utilizing ETI benefits.

Territory and Plan of Operation

As of December 31, 2008, the Company was authorized to write the following lines of business in the State of Mississippi:

Fire and Allied Lines
Fidelity
Boiler and Machinery
Inland Marine
Life
Credit Life
Credit Accident and Health

Casualty/Liability
Workers' Compensation
Plate Glass
Ocean Marine
Accident and Health
Auto Phy Damage/Liab
Guaranty

During the course of the examination, it was determined that the Company held polices issued in the state of Georgia. As of December 31, 2008, the Company maintained reserves on the NAIC Life, Accident and Health Annual Statement in the amount of $10,350. The Annual Statement indicated the business type to be industrial, however, the Company could not produce policies to support the type of business maintained. It was also noted that the Company does not maintain a license for industrial life business, which is how the business was classified on the 2008 annual statement filed with the MID. The examination team tested the reserve detail maintained by the Company for completeness and accuracy to the extent possible. Subsequent to December 31, 2008 and the testing performed by the examination team, the Company represented that it would pay each policyholder the face amount for each policy, based upon the records maintained by the Company. The Company should provide evidence to the MID that each policy has been paid as represented.

COMMITMENTS AND CONTINGENT LIABILITIES

As of the examination date, the Company was named as a defendant in certain litigation that was still pending at the report date. The Company intends to contest these claims and believes that meritorious defenses exist. The ultimate outcome of this litigation could not be reasonably determined for examination purposes; however, management of the Company does not anticipate any significant losses or costs to result.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Following are comments made in the previous examination report, as of December 31, 2003, that were not adequately addressed subsequent to the previous examination. As such, the same recommendations or related recommendations are again recorded in the Comments, Recommendations and Directives section of this report. Management should address these issues to fully comply with the directives of the Mississippi Insurance Department. The recommendations below are recorded exactly as originally reported in the previous examination, as of December 31, 2003.

Previous Exam Report Recommendation Number 1:

1. It is recommended that the Company accurately report payments to affiliates on Schedule Y to comply with the NAIC *Annual Statement Instructions*.

   Current Status:

   The Company continues to have inaccuracies within Schedule Y. This issue is again addressed in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 9)

Previous Exam Report Recommendation Number 3:

3. It is recommended that the Company correct and/or amend its minutes, Restated Articles of Association and Bylaws to reflect the following:

   Minutes of Special Meeting of Directors:

   The minutes should reflect correct name of the Company and should reflect Kent Higdon as President.

   Restated Articles of Association:

   Currently state that the number of directors be not less than 5 nor more than 15. This is inconsistent with the Bylaws and the current organizational structure.

   Bylaws:

   The Bylaws should reflect the correct name of the Company.

   Currently state that one person shall not at the same time hold the offices of Chairman of the Board and President. This is inconsistent with the Company's current organizational structure.

   Current Status:

   It did not appear that the Company has corrected the above noted issues regarding the Articles of Association or Bylaws. Therefore, the issues are again addressed in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 17)

Previous Exam Report Recommendation Number 4:

4. It is recommended that the Company obtain fidelity coverage in an amount equal to at least the NAIC suggested minimum as recommended by the NAIC *Financial Condition Examiners Handbook.*

   Current Status:

   The Company has not obtained fidelity coverage. Therefore, this issue is again addressed in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 8)

Previous Exam Report Recommendation Number 6:

6. It is recommended that the Company comply with the provisions of the marketing agreement with Inshares.

   Current Status:

   Certain issues continue to exist with the above referenced agreement. These issues are discussed in detail under the Related Party and Other Transactions section of this report. This issue is also addressed in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 1)

Previous Exam Report Recommendation Number 9:

9. It is recommended that all persons authorized to sell, solicit or negotiate insurance, obtain a continuous certificate of authority from the MID pursuant to Miss. Code Ann. § 83-17-5. Additionally, it is recommended that all applications include the signature of the producing agent.

   Current Status:

   As discussed in more detail on page 26 of this report, 2 agents were not properly appointed by the Company to sell life insurance products. This issue is also addressed again in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 14)

Previous Exam Report Recommendation Number 14:

14. It is recommended that the Company accurately reflect the reconciliation balance on Schedule E.

Current Status:

Several errors and misclassifications continue to be noted in the Company filings with the MID. This issue is again addressed in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 9)

Previous Exam Report Recommendation Number 18:

18. It is recommended that the Company begin requiring payments on outstanding loan balances and those loans be made current.

Current Status:

It was observed that certain outstanding loan balances did not appear to be performing at times during the time period covered by this examination. This issue is addressed in more detail in the Related Party and Other Transactions section of this report. This issue is again addressed in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 4)

Previous Exam Report Recommendation Number 20:

20. It is recommended that the Company tax returns be filed under the correct name of the Company.

Current Status:

Upon review of the tax filings for the time period covered by this examination, it appears that the filings continue to be made under the incorrect name of the company. This issue is again addressed in the Comments, Recommendations and Directives section of this report. (see current comments, recommendations and directives number 18)

COMMENTS ON FINANCIAL STATEMENTS

Mortgage Loans **$1,685,533**

The above captioned amount is $505,500 less than the amount reported on the December 31, 2008, life, accident and health annual statement filed with the MID. The adjustment is the result of non-admitting the mortgage loan to Ruby K. Higdon in the amount of $505,500, as listed on Schedule B of the 2008 life, accident and health annual statement filed with the MID. Information relating to non-admitting the mortgage loan is discussed in the following paragraphs.

The Land Deed of Trust executed by Ruby K. Higdon to USA indicates that the only collateral securing the loan is an easement. Further, the five acre tract that appears to be the intended collateral for this mortgage loan is indicated to be collateral for a loan from Hancock Bank. Pursuant to Miss. Code Ann. § 83-19-51(1)(c), an insurance company may not carry encumbered property as collateral for mortgages. Further, the Land Deed of Trust has a defective acknowledgement. Following are directives and recommendations regarding the Ruby K. Higdon mortgage loan:

- The Company should determine what property is supposed to be collateral for this loan. The Summary Appraisal Report, dated February 12, 2009, states that it covers property located at 9807 Pointe Aux Chenes in Oceans Springs, Mississippi and that it only covers five acres of a seven acre tract and that a single family residence is located on the excluded two acres. If the Company is going to use the five acre tract as collateral for the loan, it should obtain a release of Hancock Bank's Deed of Trust recorded in Book 2203 at Page 251, which appears to be a first lien on the five acre tract covered by the Summary Appraisal Report referenced above.
- The Company should obtain a current appraisal on the property collateralizing the mortgage from a MAI appraiser.
  The Company should have Ruby K. Higdon execute a properly dated and acknowledged Deed of Trust with a correct legal description securing the principal indebtedness of $505,500 and record it in the land records of Jackson County, Mississippi. Further, a title insurance policy and a Deed of Trust should be obtained covering the intended collateral with the Deed of Trust executed by all parties having an interest in the property.

Upon review of the mortgage loan to Dr. Kent Kihyet Higdon in the amount of $940,533, as listed on Schedule B of the 2008, life, accident and health annual statement filed with the MID, it was noted that the Warranty Deed to Dr. Kent Kihyet Higdon and the Real Estate Mortgage executed by Dr. Kent Kihyet Higdon are both signed by a Notary Public, but they do not contain an acknowledgement.

- The above mentioned Warranty Deed and Real Estate Mortgage should be properly re-executed and rerecorded.
- The Company should obtain title insurance for the increased loan amount on the property collateralizing the mortgage loan.

Upon review of each of the mortgage loans held by the Company, it was determined that each were related party transactions for purposes of disclosures pursuant to SSAP number 25. The related disclosures are as follows:

Mortgage Loan	Date of Loan	Maturity Date	Unpaid Balance	Annual Interest Rate
Kent K. Higdon	8/8/2005	8/8/2025	$940,533	3.00%
Thomas E. Higdon	6/30/2004	8/1/2041	$235,000	3.50%
Thomas E. Higdon	7/19/2004	6/10/2015	$510,000	3.50%
Ruby K. Higdon	12/31/2007	11/30/2022	$426,500	5.00%
Ruby K. Higdon	2/29/2008	1/29/2023	$79,000	5.00%
			$2,191,033	

These loans require payment of interest only, or in some cases, interest and a nominal amount of principle, until the maturity date of the loan. As previously discussed on page 5 of this report, pursuant to a letter from the MID to the Company, dated February 13, 2003, the MID requires the Company to make a written request and obtain written approval prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions. No evidence of written requests or approvals was noted with regard to these related party transactions. The Company should make a written request to the MID immediately seeking written approval for these transactions. Relevant factors for the MID's consideration include but are not limited to the Company's mortgage loans structure and terms as compared to arms-length mortgage loans trading in active markets.

Real Estate **$1,679,515**

The above captioned amount is $44,640 less than the amount reported on the December 31, 2008, annual statements filed with the MID. The adjustment is the result of writing down property that was recorded at an incorrect amount. This is 15.1 acres of land purchased on May 6, 2004 in Grand Bay, AL with a cost basis of $60,000 that was erroneously listed as the Richardson Estates and carried at $104,640.

It was also noted that properties were misclassified on Schedule A of the annual statement filings. The Company should implement policies and procedures to ensure that properties are classified and reported in the appropriate category on the annual statements filed with the MID.

The Company reported two real estate properties on the 2008 property and casualty annual statement as filed with the MID; land and building in Pascagoula and land in Lucedale for $250,000 and $350,000, respectively. The nature of the apparent use of these properties indicates that environmental concerns may affect the value of the property. Upon review of the documents supporting these assets and given the nature of these assets, the Company should obtain appraisals for both properties from an MAI appraiser that considers environmental concerns and obtain appropriate testing if deemed necessary by an MAI appraiser.

The Company represented to the MID via letter, dated September 9, 2009, that appraisals were being obtained on the following properties:

- Home Office Building – Gautier, Mississippi
- Beach Front Property – Gautier, Mississippi
- 15.1 Acres – Grand Bay, Alabama

As of the date of this report, the appraisals have not been received by the MID. The Company should timely file the appraisals with the MID on the above mentioned properties.

Losses **$4,156,827**

The above captioned amount is $1,100,000 more than the amount reported on the December 31, 2008, annual statements filed with the MID. Findings and recommendations provided by the examination actuary relating to this examination adjustment are as follows:

Exception 1 – Appointed Actuary – Reasonability Checks in Reserve Analysis:

Finding:
While the Appointed Actuary included industry and prior selection with which to compare his selected age-to-age factors, the actuarial analysis did not include many of the reasonability measures that we might normally expect in an analysis, such as indicated severities, pure premiums, etc. Further, claim count information was not incorporated in the actuarial report, and does not appear to be recorded correctly in Schedule P.

Recommendation:
It is recommended that, in Actuarial Reports supporting future Statements of Actuarial Opinion, the Appointed Actuary include premiums, exposures and/or claim counts, and incorporate this data in reviewing the indications and selections resulting from his analysis for reasonability.

Exception 2 – Management – Adjustment to Carried Reserves as of 12/31/08:

Finding:
We found issues with the Appointed Actuary's selections underlying his estimate of required reserves as of 12/31/08. Since the Company carries the Appointed Actuary's estimate, this relates directly to carried reserves.

The Appointed Actuary selected a materiality standard of $1 given the Company's financial and Risk-Based Capital position. We also incorporated a low materiality standard in our evaluation of the Appointed Actuary's selections, assumptions, etc., and found several areas of concern, as discussed below.

Issues noted with the Appointed Actuary's selections include:

- The Appointed Actuary's selections of loss development factors are generally reasonable but may be distorted since the catastrophe data from 2005 was included with the rest of the data and appears to reflect a different pattern than the traditional experience.

- Additional concern is generated by the fact that the Company has experienced adverse runoff in recent years, and, per the Appointed Actuary's disclosure, extraordinary values were generated for IRIS Tests 11, 12, and 13. No specific adjustment in the wake of this observation is presented in the Appointed Actuary's analysis.

- Additionally, the Appointed Actuary's selected expected loss ratios underlying the *a priori* Auto Liability estimates underlying the Bornhutter-Ferguson methods shows a significant drop of 10% per year for accident years 2007 and 2008, dropping from an expected ratio of 85% for 2006 and prior, to 65% for 2008. However, the Appointed Actuary does not include a discussion of motivation for reducing these selections in the Actuarial Report.

- The Appointed Actuary does not give a range of reasonable reserves but rather a point estimate. The selections of ultimate losses only deviate from the incurred losses for the last three years in auto liability and one year in auto physical damage. Based on the triangles it appears that there is still more development to occur on older years of auto liability, albeit the amount of development is not large.

- Additionally, the Appointed Actuary's selections of Auto Liability estimated ultimate loss and LAE for the most recent two accident years result in indicated loss and LAE ratios significantly lower than the loss ratios indicated for accident years 2006 and prior, and the selection for accident year 2008 (from which the majority of reserves originate) is materially lower than all but one (the most leveraged) of the indications.

- Finally, a review of expected versus actual loss and LAE emergence through 6/30/09 reveals material adverse runoff, further supporting the conclusion that selections as of 12/31/08 are potentially insufficient. Based on these observations, we elected to perform an independent estimate of required loss and LAE reserves, discussed below.

Independent Estimates
Given our concerns with the Appointed Actuary's selections and assumptions discussed above, combined with the Appointed Actuary's selected materiality standard of $1, we elected to perform an independent estimate of reserves as of 12/31/08 utilizing the data triangles included in the Appointed Actuary's report but based on independent estimates of loss development pattern, initial expected losses, and selection of estimated ultimate loss and LAE from the various indications.

Our analysis utilized the data from the Appointed Actuary's analysis, and the same implementation of the paid and reported loss & ALAE development methods. However, due to the fact that we question the selected initial loss ratios selected by the Appointed Actuary, we incorporated two modifications to the paid and reported Bornhuetter-Ferguson method.

A review of the indications based on our analysis reveals that the Appointed Actuary's selected estimate of required reserves, as well as carried reserves, are insufficient to cover liabilities incurred through 12/31/08.

Recommendation:
It is recommended that the Company restate carried loss reserves in the 2008 Annual Statement (Page 3, Line 1) to be $4,156,827, incorporating an increase of $1,100,000.

Federal income taxes payable **$150,000**

The above captioned amount is $100,000 more than the amount reported on the December 31, 2008, annual statements filed with the MID. The increase is due to the Company under accruing federal taxes payable and is made in order to properly record the amount.

Other expenses **$71,956**

The above captioned amount is $71,956 more than the amount reported on the December 31, 2008, annual statements filed with the MID. This increase is primarily due to unaccrued accounting and legal fees.

Aggregate reserve for life contracts **$353,629**

The above captioned amount is $45,987 more than the amount reported on the December 31, 2008, annual statements filed with the MID. It was noted that the Company was not properly applying the policy form's non-forfeiture provisions to terminating ordinary life insurance policies. Therefore, the Company has in-force a large block of unidentified extended term life insurance policies. During the course of the examination, the examination actuary found that the Company's consulting actuary understated these extended term life insurance policy reserves by $45,987.

- The Company should identify the existing extended term insurance policies.
- In the future, whenever policyholders cease paying premiums, the Company should follow the non-forfeiture provisions found in its ordinary life insurance policy form.
- The Company's appointed actuary should prepare future cash flow studies of the Company's life insurance business in accordance with ASOP No. 22, and future Actuarial Memoranda in accordance with ASOP No. 7.

Cash and short-term investments **$4,396,193**

The above captioned amount is the same as reported by the Company on the 2008 annual statements. However, while performing examination procedures in this section, it was noted that the Company does not have policies and procedures in place to ensure that appropriate escheat filings are made with the related money being sent to the Mississippi Treasury Department and as such no escheat filings were produced by the Company to the examination team. Pursuant to Mississippi Code Title 89, Chapter 12, insurance companies are required to escheat funds and make appropriate filings with the Mississippi Treasury Department at stated intervals. The Company should implement policies and procedures to ensure that all escheat funds are immediately sent to and any required filings are appropriately made with the Mississippi Treasury Department pursuant to Mississippi Code Title 89, Chapter 12.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES
EXAMINATION AS OF DECEMBER 31, 2008

1. Upon review of the general agent insurance agreement between USA and Inshares Capital Corporation, it was noted that the agreement does not appear to be in compliance with SSAP numbers 25 and 96, specifically regarding payment structure and terms. Further, it was noted that the name of the Company as defined in the general agent insurance agreement is Union Savings American Insurance Company, which is no longer the legal name of the Company. Based upon a review of the Company's operating structure coupled with our understanding of Inshares Capital Corporation, the Company's parent, it does not appear that the general agent insurance agreement between the two entities is in compliance with Miss. Code Ann. § 83-6-21, nor does it appear that the services as defined in the written general agent insurance agreement are being provided by the Company's parent. The Company should correct the noted deficiencies and file the amended agreement for approval with the MID pursuant to Miss. Code Ann. § 83-6-21. (page 4)

2. The Company should fully comply with SSAP numbers 25 and 96 as it relates to transactions between USA and USA Salvage Company, Inc., which includes obtaining a written agreement between USA and USA Salvage Company, Inc. Further, Pursuant to a letter from the MID to the Company, dated February 13, 2003, the MID requires the Company to make a written request and obtain written approval prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions. No evidence of written requests or approvals was noted with regard to related party transactions. The Company should provide written requests and seek written approval from the MID prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions. (page 5)

3. It was noted that as of the date of this examination report, the Company has not filed an audited financial statement of its ultimate controlling person pursuant to the requirements within Miss. Code Ann. § 83-6-1 through § 83-6-43 and as further detailed in MID Regulation 92-103. The Company should file audited financial statements of the Company's ultimate controlling person. (page 5)

4. It was noted that loans were made to various family members during the time period covered by this examination. These loans combined to a material amount for financial statement reporting purposes. At times these loans did not appear to be performing and were non-admitted on the annual statements as filed with the MID. Pursuant to a letter from the MID to the Company, dated February 13, 2003, the MID requires the Company to make a written request and obtain written approval prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions. No evidence of written requests or approvals was noted with regard to related party transactions. The Company should provide written requests and seek written approval from the MID prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions and monitor the related party loans closely to ensure that all loans are performing and current in accordance with SSAP numbers 5 and 25. (page 5)

5. The Company should file the HCRS completely and accurately in accordance with relevant Mississippi Code and MID regulations. (page 5)

6. The Company should review its internal policies and procedures and make any appropriate changes to ensure that all future material transactions are timely filed with the MID. The Company should also provide an update to the MID regarding the status of this transaction. (page 6)

7. It was noted that John Pearson Stephens was deceased as of December 31, 2008. Mr. Stephens was still listed as both an officer and director of the Company. Miss. Code Ann. § 83-19-13 requires insurance companies to maintain a minimum of three board members. It was noted that the Company's March 31, 2009 quarterly statement filed with the MID indicated that William T. Higdon replaced Mr. Stephens as an officer and director of the Company. However, it was noted that the statement did not properly include the "#" symbol by William T. Higdon's name, indicating that he was a new officer and director. Additionally, the Company has not filed a biographical affidavit for William T. Higdon, pursuant to Miss. Code Ann. § 83-19-16. The Company should file a biographical affidavit with the MID pursuant to Miss. Code Ann. § 83-19-16. (page 7)

8. The NAIC suggested minimum amount of fidelity insurance coverage for a company of this size is $225,000. The Company had no fidelity bond or errors and omissions coverage in effect at December 31, 2008. It is recommended that the Company obtain fidelity coverage in an amount equal to at least the NAIC suggested minimum as recommended by the NAIC *Financial Condition Examiners Handbook*. (page 7)

9. The Company should review its current policies and procedures and implement appropriate measures to ensure that its annual statements are timely and accurately filed in accordance with Miss. Code Ann. § 83-5-55 and that other filings are made in a timely manner pursuant to applicable laws. (page 8)

10. The Company should inject funds into the NAIC Property and Casualty Annual Statement in an amount sufficient to cure the action level issue currently experienced. The amount required to cure should take into account any adjustments made as a result of this examination. (page 9)

11. Based upon Miss. Code Ann. § 83-5-409(2), the Company should file an RBC plan contemplating the adjustments as noted in this examination report along with meeting the other requirements in the relevant Mississippi Code sections. (page 9)

12. The Company should use cost allocation methodology such as the guidance in SSAP number 70, which addresses, in part, allocation methodologies of shared expenses. In general, the guidance states that specific identification of an expense with an activity is most accurate. However, where specific identification is not feasible allocation of expenses should be based upon pertinent factors such as studies of employee activities, salary ratios or similar analysis. This allocation approach coupled with proper asset allocation to each statement would eliminate the need for intra-company accounting entries that have the result of reporting income and expense as a result of transactions within the Company. (page 10)

13. The Company should maintain separate accounting records that seek to match the assets that support the insurance liabilities in each of the respective NAIC Annual Statement filings. This would allow for monitoring in accordance with Miss. Code Ann. § 83-5-401 through § 83-5-427 and application of the numerous NAIC ratios that are designed to test the business by annual statement type. (page 10)

14. The Company should ensure that all persons authorized to sell, solicit or negotiate insurance be appropriately appointed by the Company pursuant to Miss. Code Ann. § 83-17-5. (page 26)

15. Pursuant to Miss. Code Ann. § 83-5-207, the Company should maintain adequate records for policyholders with cash value or policyholders utilizing ETI benefits. (pages 26)

16. During the course of the examination, it was determined that the Company held polices issued in the state of Georgia. As of December 31, 2008, the Company maintained reserves on the NAIC Life, Accident and Health Annual Statement in the amount of $10,350. The Annual Statement indicated the business type to be industrial, however, the Company could not produce policies to support the type of business maintained. It was also noted that the Company does not maintain a license for industrial life business, which is how the business was classified on the 2008 annual statement filed with the MID. The examination team tested the reserve detail maintained by the Company for completeness and accuracy to the extent possible. Subsequent to December 31, 2008 and the testing performed by the examination team, the Company represented that it would pay each policyholder the face amount for each policy, based upon the records maintained by the Company. The Company should provide evidence to the MID that each policy has been paid as represented. (page 27)

17. As recommended in the previous examination report (2003), it is again recommended that the Company correct and/or amend its Restated Articles of Association and Bylaws in accordance with the following:

    Restated Articles of Association:

    Currently state that the number of directors be not less than 5 nor more than 15. This is inconsistent with the Bylaws and the current organizational structure.

    Bylaws:

    The Bylaws should reflect the correct name of the Company.

    Currently state that one person shall not at the same time hold the offices of Chairman of the Board and President. This is inconsistent with the Company's current organizational structure. (page 28)

18. As was recommended in the previous examination report, as of December 31, 2003, it is recommended that the Company tax returns be filed under the correct name of the Company. (page 30)

19. The Company should determine what property is supposed to be collateral for the Ruby K. Higdon loan. The Summary Appraisal Report, dated February 12, 2009, states that it covers property located at 9807 Pointe Aux Chenes in Oceans Springs, Mississippi and that it only covers five acres of a seven acre tract and that a single family residence is located on the excluded two acres. If the Company is going to use the five acre tract as collateral for the loan, it should obtain a release of Hancock Bank's Deed of Trust recorded in Book 2203 at Page 251, which appears to be a first lien on the five acre tract covered by the Summary Appraisal Report referenced above. (page 31)

20. The Company should obtain a current appraisal on the property collateralizing the Ruby K. Higdon mortgage from an MAI appraiser. (page 31)

21. The Company should have Ruby K. Higdon execute a properly dated and acknowledged Deed of Trust with a correct legal description securing the principal indebtedness of $505,500 and record it in the land records of Jackson County, Mississippi. Further, a title insurance policy and a Deed of Trust should be obtained covering the intended collateral with the Deed of Trust executed by all parties having an interest in the property. (page 31)

22. The Warranty Deed and Real Estate Mortgage for the Kent K. Higdon mortgage loan should be properly re-executed and rerecorded. (page 31)

23. The Company should obtain title insurance on the increased loan amount on the property collateralizing the Kent K. Higdon mortgage loan. (page 31)

24. The mortgage loans require payment of interest only, or in some cases, interest and a nominal amount of principle, until the maturity date of the loan. As previously discussed on page 5 of this report, pursuant to a letter from the MID to the Company, dated February 13, 2003, the MID requires the Company to make a written request and obtain written approval prior to executing investment transactions in excess of $100,000 and all related party/affiliated transactions. No evidence of written requests or approvals was noted with regard to these related party transactions. The Company should make a written request to the MID immediately seeking written approval for these transactions. Relevant factors for the MID's consideration include but are not limited to the Company's mortgage loans structure and terms as compared to arms-length mortgage loans trading in active markets. (page 32)

25. It was noted that real estate properties were misclassified on Schedule A of the annual statement filings. The Company should implement policies and procedures to ensure that properties are classified and reported in the appropriate category on the annual statements filed with the MID. (page 32)

26. The Company reported two real estate properties on the 2008 property and casualty filing as filed with the MID; land and building in Pascagoula and land in Lucedale for $250,000 and $350,000, respectively. Upon review of the documents supporting these assets and given the nature of these assets, the Company should obtain appraisals for both properties from an MAI appraiser that considers environmental concerns and obtain appropriate testing if deemed necessary by an MAI appraiser. (page 32)

27. The Company represented to the MID via letter, dated September 9, 2009, that appraisals were being obtained on the following properties:

    - Home Office Building – Gautier, Mississippi
    - Beach Front Property – Gautier, Mississippi
    - 15.1 Acres – Grand Bay, Alabama

As of the date of this report, the appraisals have not been received by the MID. The Company should timely file the appraisals with the MID on the above mentioned properties. (pages 32 and 33)

28. It is recommended that, in Actuarial Reports supporting future Statements of Actuarial Opinion, the Appointed Actuary include premiums, exposures and/or claim counts, and incorporate this data in reviewing the indications and selections resulting from his analysis for reasonability. (page 33)

29. It is recommended that the Company restate carried loss reserves in the 2008 Annual Statement (Page 3, Line 1) to be $4,156,827, incorporating an increase of $1,100,000. (page 34)

30. It was noted that the Company was not properly applying the policy form's non-forfeiture provisions to terminating ordinary life insurance policies. Therefore, the Company has in-force a large block of unidentified extended term life insurance policies. During the course of the examination, the examination actuary found that the Company's consulting actuary understated these extended term life insurance policy reserves by $45,987.

    - The Company should identify the existing extended term insurance policies.
    - In the future, whenever policyholders cease paying premiums, the Company should follow the non-forfeiture provisions found in its ordinary life insurance policy form.
    - The Company's appointed actuary should prepare future cash flow studies of the Company's life insurance business in accordance with ASOP No. 22, and future Actuarial Memoranda in accordance with ASOP No. 7. (page 35 – see also directive number 15 of this report)

31. The Company should implement policies and procedures to ensure that all escheat funds are immediately sent to and any required filings are appropriately made with the Mississippi Treasury Department pursuant to Mississippi Code Title 89, Chapter 12. (page 35)

ACKNOWLEDGMENT

The courteous cooperation and assistance of the officers and employees of the Company and the MID responsible for assisting and/or participating in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

Joseph R. May, CPA, CMA, CFE, CIE
Examiner-in-charge