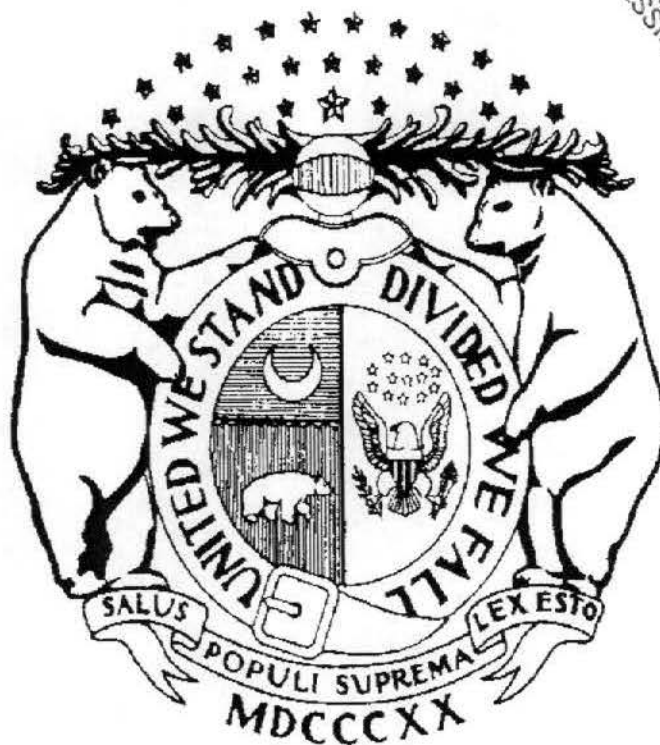


REPORT OF THE
FINANCIAL EXAMINATION OF
PREFERRED STANDARD MUTUAL INSURANCE
COMPANY

AS OF
DECEMBER 31, 2007

FILED
MAR 04 2009
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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December 17, 2008
St. Louis, Missouri

Honorable Kip Stetzler, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

PREFERRED STANDARD MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 3954 Lindell Boulevard, St. Louis, Missouri 63108, telephone number (314) 371-6555. This examination began on October 6, 2008, and was concluded on October 8, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2002, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management

Comment: Article V Section 8 of the Company's Bylaws requires the offices of Secretary and Treasurer to be a single office; however, two individuals held these offices during the entire examination period. It was recommended the Company appoint officers in compliance with its Bylaws or amend the Bylaws to comply with the current practice of the Company.

Company Response: The Company appointed Scott Brandenburg Secretary/Treasurer after William Brandenburg resigned as Treasurer at a special meeting of the Board of Directors.

Current Findings: The offices of Secretary and Treasurer were held for a time by a single individual; however, the offices are currently held by two separate individuals, which is not in compliance with the terms of the Bylaws of the Company (See the Management section of this report).

Fidelity Bond and Other Insurance

Comment: It was recommended the Company obtain a fidelity bond with a coverage limit of at least \$15,000, the minimum suggested for a company its size in the guidelines promulgated by the NAIC.

Company Response: The fidelity bond has been increased to \$25,000.

Current Findings: The fidelity bond coverage carried by the Company is within the guidelines promulgated by the NAIC.

Fidelity Bond and Other Insurance

Comment: The Company does not carry liability insurance on its officers and directors. It was recommended the Company obtain sufficient directors and officers liability insurance for the protection of the Company and its management.

Company Response: The Company has purchased and carries officers and directors liability insurance.

Current Findings: The Company currently carries liability insurance for its directors and officers as recommended in the prior examination report.

Accounts and Records

Comment: The Company does not fully and properly complete several sections of the Annual Statement. It is recommended the Company fully complete future annual statements in the format provided prior to submission to the DIFP.

Company Response: The Company will attempt to adequately complete future annual statement filings.

Current Findings: The annual statement filings during the examination were materially complete.

HISTORY

General

The Company was originally organized and incorporated on November 13, 1952, as Preferred Standard Mutual Insurance Company. On June 4, 1997, the Company merged with Lincoln Fire Insurance Company, with the Company being the surviving entity.

The Company has a Certificate of Authority dated June 28, 2001, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Bylaws, the annual meeting of the Company's members is held on the third Monday in January. Special meetings of the members may be called at any time by a majority vote of the Board of Directors. Ten members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, who are elected annually. All directors must be policyholders of the Company. The Board of Directors meets annually and on an as-needed basis, and the directors are compensated \$200 per year.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Scott Brandenburg 167 Crestmont Circle Wildwood, Missouri	Insurance Broker	2007-2008
Tuesday Brandenburg 167 Crestmont Circle Wildwood, Missouri	Insurance Agency Executive	2007-2008
Ashley Brandenburg 844 Westbrook Village Drive Ballwin, Missouri	Retail Sales Manager	2007-2008
Alecia Brandenburg 167 Crestmont Circle Wildwood, Missouri	Student	2007-2008
Melanie Millsap 16217 Maple Crossing Drive Wildwood, Missouri	Sales Representative	2007-2008

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2007, were as follows:

Scott Brandenburg	President/Treasurer
Ashley Brandenburg	Vice-President
Tuesday Brandenburg	Secretary

Article V, Section 8 of the Company Bylaws requires the offices of Secretary and Treasurer to be a single office. However, two individuals held these offices as of the examination date. It is recommended the Company appoint officers in compliance with the terms of its Bylaws.

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$15,000 and \$25,000 in coverage.

The Company carries liability coverage for their directors and officers. In addition, the Company's sole agency carries errors and omissions insurance coverage.

The Company does not own an office building or any significant personal property, thus property insurance is not applicable.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has no employees. Employee services are provided under a management agreement with West End Insurance Agency, Inc. (West End). Under the terms of the agreement, West End provides most management services to the Company, including agency force, claims payment and administrative functions. Compensation paid to West End equals 50% of monthly gross premiums, for which 30% is to represent agent commissions and 20% is to represent the monthly management fee. In addition, West End receives 50% of the annual net underwriting income. It appears the Company has made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages. The Company's policies are sold by West End Insurance Agency, Inc. under a management agreement (see the Employee Benefits section of this report).

Policy Forms and Underwriting Practices

The Company writes its business on a single policy form that provides \$10,000 of insurance protection against fire losses on residential contents. An earthquake rider providing \$5,000 coverage and a burglary rider providing \$1,000 in coverage are also available. The policies are written for a term of one month on the "debit" plan. Under this plan, each agent services a block of policyholders by collecting monthly premiums at each policyholder's residence. Agents perform ongoing premium collections and remit premiums to the Company on a weekly basis. Property inspections are performed by the agents. Adjusting is performed by the Secretary and Treasurer. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2007	\$328,362	\$3,742	\$42,306	\$ 1,900	\$11,287	\$ 23,219	\$9,490
2006	317,724	2,592	46,060	475	9,970	26,901	10,417
2005	307,305	2,591	53,076	4,377	5,541	30,867	6,166
2004	304,829	6,281	57,306	2,200	4,221	36,569	8,604
2003	297,318	7,374	66,511	2,513	6,260	41,443	10,024

At year-end 2007, 372 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct	\$246,533	\$201,149	\$217,111	\$218,318	\$232,054
Assumed	0	0	0	0	0
Ceded	<u>(61,417)</u>	<u>(57,481)</u>	<u>(56,313)</u>	<u>(57,977)</u>	<u>(62,823)</u>
Net	<u>\$185,116</u>	<u>\$143,668</u>	<u>\$160,798</u>	<u>\$160,341</u>	<u>\$169,231</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has a first per risk excess of loss reinsurance agreement with Farmers Mutual Hail Insurance Company of Iowa (the reinsurer) for property risks. For property perils, excluding earthquake, the Company retains \$1,500 per risk per occurrence, and the reinsurer is liable for 100% of the excess loss, limited to \$8,500 per risk per occurrence. For the peril of earthquake, the Company retains \$1,000 per risk per occurrence, and the reinsurer is liable for 100% of the excess loss, limited to \$4,000 per risk per occurrence. The per occurrence limit of the reinsurer under all perils is \$21,250. Annual premium is equal to 14% of the Company's gross written premium, subject to a minimum of \$12,000.

The Company has a catastrophe excess of loss reinsurance agreement with the reinsurer for property risks. Under the agreement, the reinsurer is liable for 95% of the Company's losses in excess of \$20,000 any loss occurrence. The reinsurer's liability is limited to \$47,500 per occurrence and \$95,000 for the annual contract period. Annual premium for the coverage is \$5,000.

The Company has a quota share agreement with the reinsurer for liability risks. Under the terms of the agreement, the Company cedes 100% of the liability risk and premium to the reinsurer and receives an 18% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a cash basis. The CPA firm of R. Newman and Associates, P.C., compiles the annual statement and prepares tax filings on behalf of the Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2007

Cash on Deposit	\$ 327,891
Computer Equipment	103
Loan Receivable	368

Total Assets	<u><u>\$ 328,362</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Unpaid Losses	\$ 1,500
Unearned Premium	1,245
Agent Bond Deposit	550
Accounts Payable	447

Total Liabilities	\$ 3,742

Guaranty Fund	\$ 150,000
Other Surplus	174,621

Total Surplus	324,621

Total Liabilities and Surplus	<u><u>\$ 328,362</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Assessments Earned	\$ 42,657
Other Insurance Income	0
Net Losses & Loss Adjustment Expenses Incurred	(3,495)
Other Underwriting Expenses Incurred	(40,959)

Net Underwriting Income (Loss)	\$ (1,797)

Investment Income	\$ 11,287
Other Income	0

Gross Profit (Loss)	\$ 9,490
Federal Income Tax	0

Net Income (Loss)	\$ 9,490
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	\$ 315,131
Net Income (Loss)	9,490

Policyholders' Surplus, December 31, 2007	\$ 324,621
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Management (Page 4)

It is recommended the Company appoint officers in compliance with the terms of its Bylaws.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Preferred Standard Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

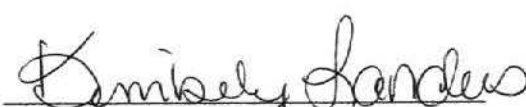
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 23rd day of December, 2008.

My commission expires:

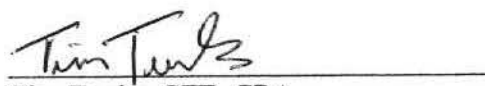
May 18, 2012


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP

PREFERRED STANDARD MUTUAL INSURANCE COMPANY

3954 Lindell Blvd.
St. Louis, MO 63108

MO (314) 371-6555 KC 531-2128 FAX (314) 371-6557

March 2, 2009

RECEIVED

MAR 04 2009

Mr. Frederick G. Heese
Chief Financial Examiner & Acting Division Director
Department of Insurance
P.O. Box 690
Jefferson City, MO 65102

INSURANCE SOLVENCY
&
COMPANY REGULATION

Dear Mr. Heese,

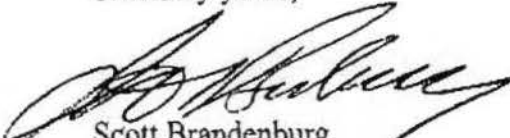
We have received the copy of the examination report for Preferred Standard Mutual Insurance Company, for the period ending December 31, 2007.

Listed below are our responses to the general comments and recommendations:

Article IV Section 8 of the by-laws states that the office of secretary and treasurer shall be considered one office. Therefore, we had a special meeting of the Board of Directors and elected Tuesday Brandenburg, Secretary-Treasurer after Scott Brandenburg resigned as Treasurer.

We hope this answers all comments and recommendations listed in examination report page 11. Our response may be included in the report as a public document.

Sincerely yours,


Scott Brandenburg
President