UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________________TO ______________________

Commission File number 000-25001
FedNat Holding Company
(Exact name of registrant as specified in its charter)

Florida	**65-0248866**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
14050 N.W. 14th Street, Suite 180, Sunrise, FL	**33323**
(Address of principal executive offices)	(Zip Code)

800-293-2532
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock	FNHC	Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐	Accelerated Filer ☑	Non-accelerated Filer ☐	Smaller reporting company ☐
			Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of November 2, 2020, the registrant had 13,717,525 shares of common stock outstanding.

FEDNAT HOLDING COMPANY
TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)
(Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (amortized cost of $519,557 and $512,645, respectively)	$ 540,443	$ 526,265
Debt securities, held-to-maturity, at amortized cost	—	4,337
Equity securities, at fair value	13,108	20,039
Total investments	553,551	550,641
Cash and cash equivalents	49,286	133,361
Prepaid reinsurance premiums	286,128	145,659
Premiums receivable, net of allowance of $118 and $159, respectively	52,753	41,422
Reinsurance recoverable, net of allowance of $52 and $0, respectively	452,194	209,615
Deferred acquisition costs and value of business acquired, net	51,157	56,136
Current and deferred income taxes, net	24,099	2,552
Goodwill	10,997	10,997
Other assets	34,643	28,633
Total assets	$ 1,514,808	$ 1,179,016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Loss and loss adjustment expense reserves	$ 553,980	$ 324,362
Unearned premiums	380,374	360,870
Reinsurance payable and funds withheld liabilities	230,987	102,467
Long-term debt, net of deferred financing costs of $1,357 and $1,478, respectively	98,643	98,522
Deferred revenue	6,795	6,856
Other liabilities	42,553	37,246
Total liabilities	1,313,332	930,323
Commitments and contingencies (see Note 11)		
Shareholders' Equity		
Preferred stock, $0.01 par value: 1,000,000 shares authorized	—	—
Common stock, $0.01 par value: 25,000,000 shares authorized; 13,717,525 and 14,414,821 issued and outstanding, respectively	137	144
Additional paid-in capital	168,912	167,677
Accumulated other comprehensive income (loss)	15,763	10,281
Retained earnings	16,664	70,591
Total shareholders' equity	201,476	248,693
Total liabilities and shareholders' equity	$ 1,514,808	$ 1,179,016

The accompanying notes are an integral part of the unaudited consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Net premiums earned	$ 83,546	$ 87,374	$ 300,934	$ 268,464
Net investment income	2,404	4,068	9,637	12,037
Net realized and unrealized investment gains (losses)	1,324	794	8,882	5,050
Direct written policy fees	3,603	2,514	10,662	7,308
Other income	6,439	4,726	16,919	13,115
Total revenues	97,316	99,476	347,034	305,974
Costs and expenses:				
Losses and loss adjustment expenses	99,016	62,105	297,862	194,284
Commissions and other underwriting expenses	24,580	24,854	90,205	75,650
General and administrative expenses	5,333	5,246	17,241	17,336
Interest expense	1,915	1,894	5,745	8,860
Total costs and expenses	130,844	94,099	411,053	296,130
Income (loss) before income taxes	(33,528)	5,377	(64,019)	9,844
Income tax expense (benefit)	(12,783)	718	(23,928)	1,940
Net income (loss)	$ (20,745)	$ 4,659	$ (40,091)	$ 7,904
Net Income (Loss) Per Common Share				
Basic	$ (1.51)	$ 0.36	$ (2.89)	$ 0.62
Diluted	(1.51)	0.36	(2.89)	0.61
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	13,708	12,854	13,890	12,831
Diluted	13,708	12,897	13,890	12,880
Dividends Declared Per Common Share	$ 0.09	$ 0.08	$ 0.27	$ 0.24

The accompanying notes are an integral part of the unaudited consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ (20,745)	$ 4,659	$ (40,091)	$ 7,904
Change in net unrealized gains (losses) on investments, available-for-sale, net of tax	1,373	2,388	5,482	15,398
Comprehensive income (loss)	$ (19,372)	$ 7,047	$ (34,609)	$ 23,302

The accompanying notes are an integral part of the unaudited consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

	Preferred Stock	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance as of July 1, 2020	$ —	13,703,175	$ 137	$ 168,485	$ 14,390	$ 38,668	$ 221,680
Net income (loss)	—	—	—	—	—	(20,745)	(20,745)
Other comprehensive income (loss)	—	—	—	—	1,373	—	1,373
Dividends declared	—	—	—	—	—	(1,259)	(1,259)
Shares issued under share-based compensation plans	—	14,350	—	41	—	—	41
Share-based compensation	—	—	—	386	—	—	386
Balance as of September 30, 2020	$ —	13,717,525	$ 137	$ 168,912	$ 15,763	$ 16,664	$ 201,476

	Preferred Stock	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance as of July 1, 2019	$ —	12,849,319	$ 128	$ 142,486	$ 9,260	$ 78,911	$ 230,785
Net income (loss)	—	—	—	—	—	4,659	4,659
Other comprehensive income (loss)	—	—	—	—	2,388	—	2,388
Dividends declared	—	—	—	—	—	(1,046)	(1,046)
Shares issued under share-based compensation plans	—	20,047	1	—	—	—	1
Share-based compensation	—	—	—	602	—	—	602
Balance as of September 30, 2019	$ —	12,869,366	$ 129	$ 143,088	$ 11,648	$ 82,524	$ 237,389

The accompanying notes are an integral part of the unaudited consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
(In thousands, except share data)
(Unaudited)

	Preferred Stock	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance as of January 1, 2020	$ —	14,414,821	$ 144	$ 167,677	$ 10,281	$ 70,591	$ 248,693
Cumulative effect of new accounting standards	—	—	—	—	—	(25)	(25)
Net income (loss)	—	—	—	—	—	(40,091)	(40,091)
Other comprehensive income (loss)	—	—	—	—	5,482	—	5,482
Dividends declared	—	—	—	—	—	(3,819)	(3,819)
Shares issued under share-based compensation plans	—	102,939	1	41	—	—	42
Repurchases of common stock	—	(800,235)	(8)	—	—	(9,992)	(10,000)
Share-based compensation	—	—	—	1,194	—	—	1,194
Balance as of September 30, 2020	$ —	13,717,525	$ 137	$ 168,912	$ 15,763	$ 16,664	$ 201,476

	Preferred Stock	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance as of January 1, 2019	$ —	12,784,444	$ 128	$ 141,128	$ (3,750)	$ 77,753	$ 215,259
Net income (loss)	—	—	—	—	—	7,904	7,904
Other comprehensive income (loss)	—	—	—	—	15,398	—	15,398
Dividends declared	—	—	—	—	—	(3,133)	(3,133)
Shares issued under share-based compensation plans	—	84,922	1	—	—	—	1
Share-based compensation	—	—	—	1,960	—	—	1,960
Balance as of September 30, 2019	$ —	12,869,366	$ 129	$ 143,088	$ 11,648	$ 82,524	$ 237,389

The accompanying notes are an integral part of the unaudited consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash flow from operating activities:		
Net income (loss)	$ (40,091)	$ 7,904
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized and unrealized investment (gains) losses	(8,882)	(5,050)
Loss (gain) on early extinguishment of debt	—	3,575
Amortization of investment premium or discount, net	2,353	606
Depreciation and amortization	1,427	1,088
Share-based compensation	1,194	1,960
Changes in operating assets and liabilities:		
Prepaid reinsurance premiums	(140,469)	(61,717)
Premiums receivable, net	(11,331)	(10,141)
Reinsurance recoverable, net	(242,611)	8,549
Deferred acquisition costs and value of business acquired, net	4,979	(9,103)
Income taxes, net	(23,322)	(893)
Deferred revenue	(61)	1,654
Loss and loss adjustment expense reserves	229,618	(9,282)
Unearned premiums	19,504	35,401
Reinsurance payable and funds withheld liabilities	128,520	59,203
Other	401	2,632
Net cash provided by (used in) operating activities	(78,772)	26,386
Cash flow from investing activities:		
Proceeds from sales of equity securities	11,441	7,461
Proceeds from sales of debt securities	346,890	123,415
Purchases of equity securities	(4,727)	(5,190)
Purchases of debt securities	(402,894)	(169,933)
Maturities and redemptions of debt securities	60,767	29,158
Purchases of property and equipment	(2,585)	(1,562)
Net cash provided by (used in) investing activities	8,892	(16,651)
Cash flow from financing activities:		
Proceeds from issuance of long-term debt, net of issuance costs	—	98,390
Payment of long-term debt and prepayment penalties	—	(48,000)
Purchases of FedNat Holding Company common stock	(10,418)	—
Issuance of common stock for share-based awards	42	1
Dividends paid	(3,819)	(3,131)
Net cash provided by (used in) financing activities	(14,195)	47,260
Net increase (decrease) in cash and cash equivalents	(84,075)	56,995
Cash and cash equivalents at beginning-of-period	133,361	64,423
Cash and cash equivalents at end-of-period	$ 49,286	$ 121,418

The accompanying notes are an integral part of the unaudited consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)
(Continued)

	Nine Months Ended September 30,	
	2020	2019
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for interest	$ 7,500	$ 4,860
Cash paid (received) during the period for income taxes	(598)	2,729
Significant non-cash investing and financing transactions:		
Right-of-use asset	(7,605)	(7,860)
Lease liability	7,605	7,860

The accompanying notes are an integral part of the unaudited consolidated financial statements.

1. ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Organization

FedNat Holding Company ("FNHC," the "Company," "we," "us," or "our") is a regional insurance holding company that controls substantially all aspects of the insurance underwriting, distribution and claims processes through our subsidiaries and contractual relationships with independent agents and general agents. We, through our wholly owned subsidiaries, are authorized to underwrite and/or place homeowners multi-peril ("homeowners"), federal flood and other lines of insurance in Florida and other states. We market, distribute and service our own and third-party insurers' products and other services through a network of independent and general agents.

FedNat Insurance Company ("FNIC"), our largest wholly owned insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance by the state's insurance departments, in Florida, Louisiana, Texas, Georgia, South Carolina, Alabama and Mississippi.

Maison Insurance Company ("MIC"), an insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance as well as wind/hail-only exposures by the state's insurance departments in Louisiana, Texas and Florida.

Monarch National Insurance Company ("MNIC"), an insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance in Florida.

Material Distribution Relationships

Ivantage Select Agency, Inc.
The Company is a party to an insurance agency master agreement with Ivantage Select Agency, Inc. ("ISA"), an affiliate of Allstate Insurance Company ("Allstate"), pursuant to which the Company has been authorized by ISA to appoint Allstate agents to offer our FNIC homeowners insurance products to consumers in Florida. As a percentage of the total homeowners premiums we underwrote, 20.9% and 23.6% were from Allstate's network of Florida agents, for the three months ended September 30, 2020 and 2019, respectively. As a percentage of the total homeowners premiums we underwrote, 20.9% and 23.5% were from Allstate's network of Florida agents, for the nine months ended September 30, 2020 and 2019, respectively.

SageSure Insurance Managers, LLC
The Company is a party to a managing general underwriting agreement with SageSure Insurance Managers, LLC ("SageSure") to facilitate growth in our FNIC homeowners business outside of Florida. As a percentage of the total homeowners premiums, 26.2% and 25.2% of the Company's premiums were underwritten by SageSure, for the three months ended September 30, 2020 and 2019, respectively. As a percentage of the total homeowners premiums, 26.0% and 22.4% of the Company's premiums were underwritten by SageSure, for the nine months ended September 30, 2020 and 2019, respectively. As part of our partnership with SageSure, we entered into a profit share agreement, whereby we share 50% of net profits of this line of business, as calculated per the terms of the agreement, subject to certain limitations, which include limits on the net losses that SageSure can realize. The limit is consistent with the amount of inception to date profits of the profit share agreement. In addition, refer to Note 6 for information regarding a fully collateralized quota-share treaty on this book of business.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The consolidated financial statements include the accounts of FNHC and its wholly-owned subsidiaries and all entities in which the Company has a controlling financial interest and any variable interest entity ("VIE") of which the Company is the primary beneficiary. The Company's management believes the consolidated financial statements reflect all material adjustments, including normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows of the Company for the periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company identifies a VIE as an entity that does not have sufficient equity to finance its own activities without additional financial support or where the equity investors lack certain characteristics of a controlling financial interest. The Company assesses its contractual, ownership or other interests in a VIE to determine if the Company's interest participates in the variability the VIE was designed to absorb and pass onto variable interest holders. The Company performs an ongoing qualitative assessment of its variable interests in a VIE to determine whether the Company has a controlling financial interest and would therefore be considered the primary beneficiary of the VIE. If the Company determines it is the primary beneficiary of a VIE, the Company consolidates the assets and liabilities of the VIE in its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Our significant accounting policies were described in Note 2 of our 2019 Form 10-K. Other than the changes noted in "Recently Issued Accounting Pronouncements, Adopted" below, there have been no significant changes in our significant accounting policies for the nine months ended September 30, 2020.

Accounting Estimates and Assumptions

The Company prepares the accompanying consolidated financial statements in accordance with GAAP, which requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results may materially differ from those estimates.

Similar to other property and casualty insurers, the Company's liability for loss and loss adjustment expenses ("LAE") reserves, although supported by actuarial projections and other data, is ultimately based on management's reasoned expectations of future events. Although considerable variability is inherent in these estimates, the Company believes that the liability and LAE reserve is adequate. The Company reviews and evaluates its estimates and assumptions regularly and makes adjustments, reflected in current operations, as necessary, on an ongoing basis.

Recently Issued Accounting Pronouncements, Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which significantly changes the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The update requires entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as currently performed under the other-than-temporary impairment ("OTTI") model. The update also requires enhanced disclosures for financial assets measured at amortized cost and available-for-sale debt securities to help the financial statement users better understand significant judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The Company adopted the guidance effective January 1, 2020, by reflecting a cumulative effect adjustment of less than $0.1 million, after-tax, which decreased retained earnings, held-to-maturity debt securities and reinsurance recoverable.

Refer to Note 7 for additional information regarding allowances for credit loss.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. The Company adopted the guidance effective January 1, 2020, which did not have any impact on the Company's consolidated financial condition or results of operations.

Recently Issued Accounting Pronouncements, Not Yet Adopted

In January 2020, the FASB issued ASU 2020-1, *Accounting for Equity Securities and Equity Investments,* which clarifies the interaction between accounting standards related to equity securities (Topic 321), equity method investments (Topic 323), and certain derivatives (Topic 815). The update clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The update is effective for interim and annual reporting periods beginning after December 15, 2021, with early adoption permitted. The Company is in the early stage of evaluating the impact that the update will have on the Company's consolidated financial position or results of operations.

3. ACQUISITIONS

On December 2, 2019, the Company completed its acquisition of the insurance operations of 1347 Property Insurance Holdings, Inc. ("PIH"). Specifically, the Company purchased from PIH all of the outstanding equity of MIC, Maison Managers, Inc., and ClaimCor LLC (collectively, the "Maison Companies"). The Maison Companies provide multi-peril and wind/hail only coverage to personal residential dwellings and manufactured/mobile homes in Louisiana, Texas and Florida. The acquisition enables us to increase geographic diversification of our book of business outside Florida and generate additional business with operating synergies and general and administrative expense savings.

Revenues and net loss of the business acquired were $14.4 million and $5.2 million, respectively, for the three months ended September 30, 2020. Revenues and net loss of the business acquired were $46.7 million and $10.2 million, respectively, for the nine months ended September 30, 2020.

The following unaudited pro forma condensed consolidated statements of operations of the Company assume that the acquisition of the Maison Companies was completed on January 1, 2019:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(In thousands)	
Revenue	$ 114,675	$ 352,291
Net income (loss)	1,128	581

Pro forma adjustments include the revenue and net income (loss) of the Maison Companies for each period as well as estimates for amortization of identifiable intangible assets acquired and fair value adjustments associated with investments, VOBA (different than deferred acquisition costs) and reinsurance recoverable. Other pro forma adjustments include the incremental increase to interest expense attributable to financing the acquisition and the impact of reflecting acquisition and integration costs earlier in 2019.

For more information regarding our acquisition, refer to Note 3 of our 2019 Form 10-K.

4. FAIR VALUE

Fair Value Disclosures of Financial Instruments

The Company accounts for financial instruments at fair value or the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs are based on market data from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. All assets and liabilities that are recorded at fair value are classified and disclosed in one of the following three categories:

- **Level 1** - Quoted market prices (unadjusted) for identical assets or liabilities in active markets is defined as a market where transactions for the financial statement occur with sufficient frequency and volume to provide pricing information on an ongoing basis, or observable inputs.
- **Level 2** - Quoted market prices for similar assets or liabilities and valuations, using models or other valuation techniques using observable market data. Significant other observable that can be corroborated by observable market data; and
- **Level 3** - Instruments that use non-binding broker quotes or model driven valuations that do not have observable market data or those that are estimated based on an ownership interest to which a proportionate share of net assets is attributed.

If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

The Company's financial instruments measured at fair value on a recurring basis and the level of the fair value hierarchy of inputs used consisted of the following:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt securities - available-for-sale, at fair value:				
United States government obligations and authorities	$ 36,115	$ 155,418	$ —	$ 191,533
Obligations of states and political subdivisions	—	22,226	—	22,226
Corporate securities	—	295,745	—	295,745
International securities	—	30,939	—	30,939
Debt securities, at fair value	36,115	504,328	—	540,443
Equity securities, at fair value	10,724	2,384	—	13,108
Total investments, at fair value	$ 46,839	$ 506,712	$ —	$ 553,551

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt securities - available-for-sale, at fair value:				
United States government obligations and authorities	$ 83,764	$ 110,429	$ —	$ 194,193
Obligations of states and political subdivisions	—	24,020	—	24,020
Corporate securities	—	278,302	—	278,302
International securities	—	29,750	—	29,750
Debt securities, at fair value	83,764	442,501	—	526,265
Equity securities, at fair value	17,361	2,678	—	20,039
Total investments, at fair value	$ 101,125	$ 445,179	$ —	$ 546,304

Held-to-maturity debt securities reported on the consolidated balance sheets at amortized cost and disclosed at fair value below (and in Note 5) and the level of fair value hierarchy of inputs used consisted of the following:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
September 30, 2020	$ —	$ —	$ —	$ —
December 31, 2019	3,453	878	—	4,331

We measure the fair value of our securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the security, and we consistently apply the valuation methodology to measure the security's fair value. Our fair value measurement is based on a market approach that utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. We review the third-party pricing methodologies on a quarterly basis and validate the fair value prices to a separate independent data service and ensure there are no material differences. Additionally, market indicators, industry and economic events are monitored.

A summary of the significant valuation techniques and market inputs for each financial instrument carried at fair value includes the following:

- ***United States Government Obligations and Authorities* -** In determining the fair value for United States government securities in Level 1, the Company uses quoted prices (unadjusted) in active markets for identical or similar assets. In determining the fair value for United States government securities in Level 2, the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.
- ***Obligations of States and Political Subdivisions* -** In determining the fair value for state and municipal securities, the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.
- ***Corporate and International Securities* -** In determining the fair value for corporate securities the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads (for investment grade securities), observations of equity and credit default swap curves (for high-yield corporates), reference data and industry and economic events.
- ***Equity Securities* -** In determining the fair value for equity securities in Level 1, the Company uses quoted prices (unadjusted) in active markets for identical or similar assets. In determining the fair value for equity securities in Level 2, the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.

We did not have securities trading in less liquid or illiquid markets with limited or no pricing information, therefore we did not use unobservable inputs to measure fair value as of September 30, 2020 and December 31, 2019. Additionally, we did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2020 or December 31, 2019, and we noted no significant changes in our valuation methodologies between those periods.

There were no changes to the Company's valuation methodology and the Company is not aware of any events or circumstances that would have a significant adverse effect on the carrying value of its assets and liabilities measured at fair value as of September 30, 2020 and December 31, 2019. There were no transfers between the fair value hierarchy levels during the nine months ended September 30, 2020 and 2019.

5. INVESTMENTS

Unrealized Gains and Losses

The difference between amortized cost or cost and estimated fair value and gross unrealized gains and losses, by major investment category, consisted of the following:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
September 30, 2020				
Debt securities - available-for-sale:				
United States government obligations and authorities	$ 188,805	$ 2,835	$ 107	$ 191,533
Obligations of states and political subdivisions	21,332	909	15	22,226
Corporate	279,670	16,394	319	295,745
International	29,750	1,204	15	30,939
	$ 519,557	$ 21,342	$ 456	$ 540,443

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2019				
Debt securities - available-for-sale:				
United States government obligations and authorities	$ 191,546	$ 3,073	$ 426	$ 194,193
Obligations of states and political subdivisions	23,748	294	22	24,020
Corporate	268,182	10,252	132	278,302
International	29,169	593	12	29,750
	512,645	14,212	592	526,265
Debt securities - held-to-maturity:				
United States government obligations and authorities	3,585	12	39	3,558
Corporate	697	20	—	717
International	55	1	—	56
	4,337	33	39	4,331
Total investments, excluding equity securities	$ 516,982	$ 14,245	$ 631	$ 530,596

Net Realized and Unrealized Gains and Losses

The Company calculates the gain or loss realized on the sale of investments by comparing the sales price (fair value) to the cost or amortized cost of the security sold. Net realized gains and losses on investments are determined in accordance with the specific identification method.

Net realized and unrealized gains (losses) recognized in earnings, by major investment category, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Gross realized and unrealized gains:				
Debt securities	$ 919	$ 897	$ 11,708	$ 2,048
Equity securities	1,361	326	3,566	4,633
Total gross realized and unrealized gains	2,280	1,223	15,274	6,681
Gross realized and unrealized losses:				
Debt securities	(121)	(4)	(2,608)	(524)
Equity securities	(835)	(425)	(3,784)	(1,107)
Total gross realized and unrealized losses	(956)	(429)	(6,392)	(1,631)
Net realized and unrealized gains (losses) on investments	$ 1,324	$ 794	$ 8,882	$ 5,050

The above line item, net realized and unrealized gains (losses) on investments, includes the following equity securities gains (losses) recognized in earnings:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Net realized and unrealized gains (losses)	$ 526	$ (99)	$ (218)	$ 3,526
Less:				
Net realized and unrealized gains (losses) on securities sold	2,635	1,012	2,053	394
Net realized and unrealized gains (losses) recognized during the period still held as of the end-of-period	$ (2,109)	$ (1,111)	$ (2,271)	$ 3,132

Contractual Maturity

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

Amortized cost and estimated fair value of debt securities, by contractual maturity, consisted of the following:

	September 30, 2020	
	Amortized Cost	Fair Value
Securities with Maturity Dates	(In thousands)	
Debt securities, available-for-sale:		
One year or less	$ 18,875	$ 19,022
Over one through five years	195,641	203,440
Over five through ten years	132,764	140,422
Over ten years	172,277	177,559
Total	$ 519,557	$ 540,443

Net Investment Income

Net investment income consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Interest income	$ 2,374	$ 4,005	$ 9,445	$ 11,831
Dividends income	30	63	192	206
Net investment income	$ 2,404	$ 4,068	$ 9,637	$ 12,037

Aging of Gross Unrealized Losses

Gross unrealized losses and related fair values for debt securities, grouped by duration of time in a continuous unrealized loss position, consisted of the following:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(In thousands)			
September 30, 2020						
Debt securities - available-for-sale:						
United States government obligations and authorities	$ 30,860	$ 105	$ 82	$ 2	$ 30,942	$ 107
Obligations of states and political subdivisions	1,679	15	—	—	1,679	15
Corporate	22,669	319	—	—	22,669	319
International	4,158	14	132	1	4,290	15
	$ 59,366	$ 453	$ 214	$ 3	$ 59,580	$ 456

	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(In thousands)			
December 31, 2019						
Debt securities - available-for-sale:						
United States government obligations and authorities	$ 49,833	$ 409	$ 2,218	$ 17	$ 52,051	$ 426
Obligations of states and political subdivisions	6,810	22	—	—	6,810	22
Corporate	15,872	94	7,694	38	23,566	132
International	3,856	10	179	2	4,035	12
	76,371	535	10,091	57	86,462	592
Debt securities, held-to-maturity:						
United States government obligations and authorities	—	—	2,287	39	2,287	39
Total investments, excluding equity securities	$ 76,371	$ 535	$ 12,378	$ 96	$ 88,749	$ 631

As of September 30, 2020, the Company held a total of 103 debt securities that were in an unrealized loss position, of which 3 securities were in an unrealized loss position continuously for 12 months or more. As of December 31, 2019, the Company held a total of 203 debt securities that were in an unrealized loss position, of which 24 securities were in an unrealized loss position continuously for 12 months or more. The unrealized losses associated with these securities consisted primarily of losses related to corporate securities.

Collateral Deposits

Cash and cash equivalents and investments, the majority of which were debt securities, with fair values of $9.5 million and $11.2 million, were deposited with governmental authorities and into custodial bank accounts as required by law or contractual obligations as of September 30, 2020 and December 31, 2019, respectively.

Reclassification of Held-to-Maturity Securities to Available-for-Sale

The Company sold held-to-maturity securities with a carrying value of $70 thousand and realized a loss of less than $1 thousand during the second quarter of 2020 due to credit concerns for certain securities. The Company, as of the date of the aforementioned sales, reclassified its remaining held-to-maturity securities to available-for-sale. The held-to-maturity securities transferred had an amortized cost of $4.2 million and fair value of $4.3 million and resulted in $0 and $58 thousand of unrealized gains, pre-tax, recognized in other comprehensive income, respectively in the three and nine months ended September 30, 2020.

6. REINSURANCE

Overview

Reinsurance is used to mitigate the exposure to losses, manage capacity and protect capital resources. The Company reinsures (cedes) a portion of written premiums on an excess of loss or a quota-share basis in order to limit the Company's loss exposure. To the extent that reinsuring companies are unable to meet their obligations assumed under these reinsurance agreements, the Company remains primarily liable to its policyholders.

The Company is selective in choosing reinsurers and considers numerous factors, the most important of which is the financial stability of the reinsurer or capital specifically pledged to uphold the contract, its history of responding to claims and its overall reputation. In an effort to minimize the Company's exposure to the insolvency of a reinsurer, the Company evaluates the acceptability and review the financial condition of the reinsurer at least annually with the assistance of the Company's reinsurance broker.

Significant Reinsurance Contracts

2019-2020 Catastrophe Excess of Loss Reinsurance Program
Given the December 2, 2019 acquisition of the Maison Companies, the Company and PIH agreed to combine FNIC, MNIC, and MIC under a single reinsurance program allowing the carriers to capitalize on efficiencies, spread of risk and scale.

The combined reinsurance treaties provide approximately $1.3 billion of single-event reinsurance coverage in excess of a $27 million retention for catastrophic losses on the first event (and $15 million on the second and third events), including hurricanes, and aggregate coverage of $1.9 billion, at an approximate total cost of $224.3 million.

The combined FNIC, MIC and MNIC private market excess of loss treaties, covering both Florida and non-Florida exposures, became effective July 1, 2019 and all private layers have prepaid automatic reinstatement protection, which affords the carriers additional coverage for subsequent events. This private market excess of loss treaty structure breaks coverage into layers, with a cascading feature such that substantially all layers attach after $20 million in losses for FNIC, $2 million in losses for MNIC and $5 million in losses for MIC. For FNIC and MNIC, the second and third event attaches at $10 million per event, on a combined basis. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted. The overall reinsurance program is with reinsurers that currently have an A.M. Best Company or Standard & Poor's rating of "A-" or better or have fully collateralized their maximum potential obligations in dedicated trusts.

As indicated above, FNIC, MIC and MNIC's combined 2019-2020 reinsurance program is estimated to cost $224.3 million. This amount includes approximately $178.5 million for private reinsurance for the carriers' exposure described above, including prepaid automatic premium reinstatement protection, along with approximately $45.8 million payable to the FHCF. The combination of private and FHCF reinsurance treaties affords FNIC, MNIC, and MIC approximately $1.9 billion of aggregate coverage with a maximum single event coverage totaling approximately $1.3 billion, exclusive of retentions. Each carrier will directly pay its allocated portion of the aggregate reinsurance ceded premium cost. The allocation methodology by which FNIC, MNIC, and MIC determines their share of the premium and distribution of reinsurance recoveries under the combined reinsurance tower is based on catastrophe loss modeling of the separate books of business. Each carrier shares the combined program cost in proportion to its contribution to the total expected loss in each reinsurance layer. Each carrier's reinsurance recoveries will be based on that carrier's contributing share of a given event's total loss. Both FNIC and MNIC maintained their FHCF participation at 75% for the 2019 hurricane season, and MIC increased its FHCF participation to 90%.

FNIC's non-Florida excess of loss reinsurance treaty affords us an additional $18 million of coverage for a second event, which applies to hurricane losses only. The result is a non-Florida retention of $20 million for FNIC for the first event and $2 million for the second event, although these retentions are reduced to $10 million and $1 million after taking into account the profit-sharing agreement that FNIC has with the non-affiliated managing general underwriter that writes FNIC's non-Florida property business. FNIC's non-Florida reinsurance program cost for the above specific coverage approximates $1.8 million for this private reinsurance.

The insurance carriers' cost and amounts of reinsurance are based on current analysis of exposure to catastrophic risk. The data is subjected to exposure level analysis at various dates through December 31, 2019. This analysis of the carriers' exposure level in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in retentions, limits and reinsurance premiums in total, and by carrier, as a result of increases or decreases in the carriers' exposure levels.

2020-2021 Catastrophe Excess of Loss Reinsurance Program

The Company's excess of loss catastrophe reinsurance program for 2020-2021 (the "Program"), which covers the Company and its wholly-owned insurance subsidiaries, FNIC, MIC and MNIC was renewed effective July 1, 2020. FNIC, MIC, and MNIC are collectively referred to herein as the "carriers". The Program provides up to approximately $1.3 billion of single-event reinsurance coverage in excess of up to a $31 million retention for catastrophic losses, including hurricanes, and aggregate coverage up to $1.9 billion, at an approximate total cost of $283.3 million, subject to adjustments based on actual exposure or premium of policies at different points in time in the coming months. The Company will retain 100% of the first $25 million retention on each event plus up to an additional $6 million in retention on the first event by retaining an approximate 8.6% co-participation of the next $70 million of limit after the first $25 million. More specifically, the Program includes up to approximately $1.3 billion in aggregate private reinsurance for coverage in all states in which the Company operates, of which up to approximately $650 million is limited to any one event, plus an additional $650 million of reinsurance provided by the Florida Hurricane Catastrophe Fund ("FHCF"), that responds on both a per occurrence and in the aggregate basis, and which coverage is exclusive to the state of Florida.

The private layers of the Program, covering both Florida and non-Florida exposures have prepaid automatic reinstatement protection, which affords the carriers additional coverage for subsequent events. The private reinsurance market continued to harden this year due to a number of factors, including issues unique to the U.S. coastal catastrophe reinsurance marketplace generally and the Florida market specifically. These factors resulted in more restrictive terms by some of our individual reinsurers. The change in terms from the prior year's program includes some portion of the program having a single aggregate retention for our carriers taken as a whole, versus each carrier's own individual retention, plus some portions of the program not "cascading", which could create less broad coverage on events, if any, beyond two large events and generate potential gaps in coverage that will need to be filled with additional post renewal reinsurance protection or be retained net by the Company. As of September 30, 2020, the overall reinsurance Program was placed with reinsurers with an A.M. Best Company or Standard & Poor's rating of "A-" or better, or that have fully collateralized their maximum potential obligations in dedicated trusts. For the purpose of debt covenant compliance, if any reinsurer on the program is not collateralized or has a rating lower than "A-" by A.M. Best Company or Standard & Poor's then the Company treats that reinsurer's participation as if it was part of the Company's net retention. Refer to "Part II, Item 1A., Risk Factors" for more information.

The total Program cost includes approximately $235.9 million for private reinsurance for the carriers' exposure described above, including prepaid automatic reinstatement premium protection, along with approximately $47.4 million payable to the FHCF. The combination of private and FHCF reinsurance treaties will afford the carriers up to approximately $1.9 billion of aggregate coverage within Florida and $1.3 billion in states outside Florida with a maximum single event coverage totaling up to approximately $1.3 billion within Florida and approximately $650 million outside Florida, exclusive of retentions.

Each carrier will share the combined program cost in proportion to its contribution to the total expected loss in each reinsurance layer. Each carrier's reinsurance recoveries will be based on that carrier's contributing share of a given event's total loss and each carrier will be responsible for its portion of the Program's $25 million per event retention ($31 million for the first event only) based on a specific allocation formula. Both FNIC and MNIC increased their FHCF participation to 90% for the 2020 hurricane season, and MIC maintained its FHCF participation at 90%.

In addition, the Company purchased subsequent event reinsurance coverage that has a lower retention than the first event. Under the Program, FNIC's non-Florida book of business as written by SageSure has excess of loss reinsurance treaties which afford this specific book of business additional protection through an additional $16 million of coverage for a second event, which applies to hurricane losses only. This additional reinsurance coverage is specific to FNIC's non-Florida business and does not afford coverage to MIC's non-Florida business. The result is a retention of approximately $18 million for FNIC's book with SageSure for the first event and approximately $2 million for the second event, although these retentions are reduced to approximately $9 million and approximately $1 million after taking into account the profit-sharing agreement that FNIC has with SageSure. Furthermore, for Florida only losses, the carriers purchased second and third event coverage of 71.5% of $15 million excess of $10 million that reduces the second and third event retention for the carriers, from $25 million to $14.3 million per event, on a combined basis, which could be reduced further by an additional 28.5% placed on a parametric basis with an Excess and Surplus lines carrier that will provide coverage for the second and third Florida hurricane loss, if the first event loss criteria has been satisfied to the carriers after the inception of treaty. The amount of recovery with the parametric product is based on the magnitude of the hurricane and the proximity of the individual insured risk to the hurricane path. This coverage terminates on May 31, 2021.

Furthermore, on September 3, 2020, the Company secured $39.2 million of reinsurance limit at an approximate cost of $11.2 million. This limit is available for Hurricane Delta and any subsequent events that occur during the remainder of the current treaty year. In addition, on October 13, 2020, the Company secured 50% of $10 million excess of $8 million of reinsurance limit at an approximate cost of $875 thousand to lower its retention and further protect FNIC's non-Florida book of business written by SageSure. This limit is available for any named storm event during the remainder of the calendar year. On November 5, 2020, the Company secured an additional $13.5 million of reinsurance limit at an approximate cost of $2.0 million. This limit will be available for any subsequent events that occur for the remainder of the calendar year, except for Tropical Depression Eta.

The carriers' cost and amounts of reinsurance are based on current analysis of exposure to catastrophic risk. The data is subjected to exposure level analysis at various dates through December 31, 2020. This analysis of the carriers' exposure levels in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in retentions, limits and reinsurance premiums in total, and by carrier, as a result of increases or decreases in the carriers' exposure levels.

Quota-Share Reinsurance Programs

FNIC's reinsurance programs also include quota-share treaties. One such treaty for 30% became effective July 1, 2014, and another for 10% became effective on July 1, 2015 with each running for two years. The combined treaties provided up to a 40% quota-share reinsurance on covered losses for the homeowners' property and liability insurance program in Florida. The treaties are accounted for as retrospectively rated contracts whereby the estimated ultimate premium or commission is recognized over the period of the contracts.

On July 1, 2016, the 30% quota-share treaty expired on a cut-off basis, which means as of that date the Company retained an incremental 30% of its unearned premiums and losses. On July 1, 2017, the 10% quota-share treaty expired on a cut-off basis, which means as of that date we retained an incremental 10% of the underlying unearned premiums and losses. The reinsurers remain liable for the paid losses occurring during the terms of the treaties, until each treaty is commuted.

On July 1, 2017, FNIC bound a 10% quota-share on its Florida homeowners book of business, which excluded named storms, subject to certain limitations. This treaty is not subject to accounting as a retrospectively rated contract. This treaty expired on July 1, 2018 on a cut-off basis, meaning that the reinsurer will not be liable (under this agreement) for losses as a result of occurrences taking place after the date of termination, and the unearned premium previously ceded was returned to FNIC.

On July 1, 2018, FNIC renewed the quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms, which was initially set at a 2%, cession and is subject to certain limitations. In addition, this quota-share allowed FNIC to prospectively increase or decrease the cession percentage up to three times during the term of the agreement. Effective October 1, 2018, FNIC elected to increase the cession percentage from 2% to 10% on an in-force, new and renewal basis. The treaty expired on July 1, 2019 on a cut-off basis, meaning that the reinsurer will not be liable (under this agreement) for losses as a result of occurrences taking place after the date of termination, and the unearned premium previously ceded was returned to FNIC.

On July 1, 2019, FNIC renewed the quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms, which was set at a 10% cession and is subject to certain limitations. In addition, this quota-share allows FNIC the flexibility to prospectively increase or decrease the cession percentage up to three times during the term of the agreement. The treaty expired on July 1, 2020 on a cut-off basis, meaning that the reinsurer will not be liable (under this agreement) for losses as a result of occurrences taking place after the date of termination, and the unearned premium previously ceded was returned to FNIC.

On July 1, 2020, FNIC renewed the quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms, which was set at a 10% cession and is subject to certain limitations. In addition, this quota-share allows FNIC the flexibility to prospectively increase or decrease the cession percentage up to three times during the term of the agreement. Effective October 1, 2020, FNIC, with the agreement of Swiss Re, increased its cession percentage on this treaty from 10% to 20% on an in-force, new and renewal basis.

On July 1, 2020, FNIC entered into a new quota-share treaty with Anchor Re, Inc. ("Anchor Re"), which is an Arizona captive reinsurance entity that is under the same ownership umbrella as SageSure. The treaty provides 50% quota-share reinsurance protection on in-force, new and renewal business through June 30, 2021, subject to certain limitations, which include limits on the net losses that Anchor Re can realize during the treaty year. The limit is consistent with the amount of inception to date profits of the profit share agreement, as discussed earlier, at the effective date of this treaty. The treaty arrangement is fully collateralized through Anchor Re, Inc. The financial economics of this treaty essentially supplement the 50% profit-sharing agreement that has been and will continue to be in place with SageSure. Thus, this treaty is not expected to have any impact on the pre-tax operating results of the Company, though the components of the combined ratio will be affected by the ceding of premiums, claims and commissions. On November 3, 2020, FNIC, with the agreement of Anchor Re, increased its cession percentage from 50% to 80%, effective December 1, 2020, on its non-Florida homeowners book of business, on an in-force, new and renewal basis. The Company expects FNIC will receive statutory surplus relief from this new quota-share treaty and increase in cession, as described above.

Associated Trust Agreements
Certain reinsurance agreements require FNIC to secure the credit, regulatory and business risk. Fully funded trust agreements securing these risks totaled less than $0.1 million as of September 30, 2020 and December 31, 2019.

Reinsurance Recoverable, Net

Amounts recoverable from reinsurers are recognized in a manner consistent with the claims liabilities associated with the reinsurance placement and presented on the consolidated balance sheet as reinsurance recoverable. Reinsurance recoverable, net consisted of the following:

	September 30, 2020	December 31, 2019
	(In thousands)	
Reinsurance recoverable on paid losses	$ 102,973	$ 45,186
Reinsurance recoverable on unpaid losses	349,221	164,429
Reinsurance recoverable, net	$ 452,194	$ 209,615

As of September 30, 2020, and December 31, 2019, the Company had reinsurance recoverable of $304.7 million (as a result of Hurricanes Irma, Laura and Sally) and $163.7 million (as a result of Hurricanes Irma and Michael). Hurricane Sally made landfall in Alabama on September 16, 2020 as a Category 2 hurricane impacting both Alabama and the Florida panhandle. Hurricane Laura made landfall in Louisiana on August 27, 2020 as a Category 4 hurricane impacting both Louisiana and eastern Texas.

Net Premiums Written and Net Premiums Earned

Net premiums written and net premiums earned consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Net Premiums Written				
Direct	$ 180,152	$ 159,131	$ 558,492	$ 460,534
Ceded	(304,751)	(146,231)	(379,268)	(220,363)
	$ (124,599)	$ 12,900	$ 179,224	$ 240,171
Net Premiums Earned				
Direct	$ 183,518	$ 145,546	$ 538,988	$ 425,133
Ceded	(99,972)	(58,172)	(238,054)	(156,669)
	$ 83,546	$ 87,374	$ 300,934	$ 268,464

7. ALLOWANCES FOR CREDIT LOSS

Overview

There is significant risk and judgment involved in determining estimates of our allowances for credit loss, which reduce the amortized cost of an asset to produce an estimate of the net amount that will be collected over the asset's contractual life. Longer time horizons generally present more uncertainty in expected cash flow. We evaluate the expected credit loss of assets on an individual basis, except in cases where assets collectively share similar risk characteristics where we pool them together. We evaluate and estimate our allowances for credit loss by considering reasonable, relevant and supportable available information.

Activity in the allowances for credit loss, by asset line item on the consolidated balance sheet, is summarized as follows:

	Debt Securities, Held-to-Maturity	Premiums Receivable	Reinsurance Recoverable, Net	Total
	(In thousands)			
Balance as of December 31, 2019	$ —	$ 159	$ —	$ 159
Cumulative effect of new accounting standard (1)	1	—	32	33
Credit loss expense (recovery) (2)	(1)	(41)	20	(22)
Balance as of September 30, 2020	$ —	$ 118	$ 52	$ 170

(1) Refer to Note 2 above for information about our adoption of ASU 2016-13 on January 1, 2020.
(2) Reflected in commissions and other underwriting expenses on the consolidated statements of comprehensive income (loss).

Accrued investment income is included in other assets on the consolidated balance sheet. We immediately write-off accrued investment income if it becomes uncollectible, therefore we do not measure or record an allowance for credit losses.

Investments

Our investment policy is established by the Board of Directors' Investment Committee and is reviewed on a regular basis. This policy currently limits investment in non-investment-grade debt securities (including high-yield bonds), and limits total investments in preferred stock, common stock and mortgage notes receivable. We also comply with applicable laws and regulations that further restrict the type, quality and concentration of our investments. We do not use any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

Our investment portfolio has inherent risks because it contains volatility associated with market pricing and interest rate sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates or credit worthiness. The effects of market volatility, declining economic conditions, such as a U.S. or global economic slowdown, whether due to COVID-19, or other factors, could adversely impact the credit quality of securities in our portfolio and may have unforeseen consequences on the liquidity and financial stability of the issuers of securities we hold.

Our debt securities portfolio includes securities that:

- Are explicitly guaranteed by a sovereign entity that can print its own currency;
- The currency is routinely held by central banks, used in international commerce and commonly viewed as a reserve currency; and
- Have experienced a consistent high credit rating by rating agencies and a long history with no credit losses.

We believe if these governments were to technically default it is reasonable to assume an expectation of immaterial losses, even in the current strained market conditions. Refer to Note 5 above for the balances of these sovereign debt securities, which are reported in the following investment categories:

- United States government obligations and authorities;
- Obligations of states and political subdivisions; and
- International.

For our debt securities, available-for-sale, the fact that a security's fair value is below its amortized cost is not a decisive indicator of credit loss. In many cases, a security's fair value may decline due to factors that are unrelated to the issuer's ability to pay. For this reason, we consider the extent to which fair value is below amortized cost in determining whether a credit-related loss exists. The Company also considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. A comparison is made between the present value of expected future cash flows for a security and its amortized cost. If the present value of future expected cash flows is less than amortized cost, a credit loss is presumed to exist and an allowance for credit loss is established. Management may conclude that a qualitative analysis is sufficient to support its conclusion that the present value of the expected cash flows equals or exceeds a security's amortized cost. As a result of this review, management concluded that there were no credit-related impairments of our available-for-sale securities as of January 1, 2020, and September 30, 2020. Management does not intend to sell available-for-sale securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

Our equity investments are measured at fair value through net income (loss), therefore they do not require an allowance for credit loss.

We measure and record our valuation allowances for credit losses on our held-to-maturity corporate securities assets by multiplying the probability the asset would default within a given timeframe ("PD") by the percentage of the asset not expected to be collected upon default, or loss given default ("LGD"), and multiplying that percentage by the amortized cost of the asset. We use market observable data for our PD and LGD assumptions.

Premiums Receivable

We do have collectability risk, but our homeowners policy terms are one year or less and our policyholders are dispersed throughout the southeast United States, although the majority of our policyholders are located in Florida.

We write-off premiums receivable if the individual policy becomes uncollectible. Because collectively our premiums receivable share similar risk characteristics, we pool them to measure our valuation allowance for credit losses using an aging method approach. This method applies historical loss rates to levels of delinquency for our policy terms that are one year or less. Based upon historical collectability, adjusted for current and future economic conditions, we have measured and recorded our valuation allowances for premiums receivable.

The aging of our premiums receivable and associated allowance for credit loss as of September 30, 2020 was as follows:

		Days Past Due				
	Current	1-29	30-59	60-89	90 plus	Total
	(In thousands)					
Amortized cost	$ 52,177	$ 527	$ 51	$ 11	$ 105	$ 52,871
Allowance for credit loss	—	(7)	(3)	(3)	(105)	(118)
Net	$ 52,177	$ 520	$ 48	$ 8	$ —	$ 52,753

Reinsurance Recoverable

Refer to Note 6 above for details of our efforts to minimize our exposure to losses from a reinsurer's inability to pay.

We measure and record our valuation allowances for credit losses on our reinsurance recoverables asset by multiplying the PD by the LGD and multiplying the result by the amortized cost of the asset. We use market observable data for our PD and LGD assumptions, and in cases where we are unable to observe LGD, we assume it is 100%.

8. LOSS AND LOSS ADJUSTMENT RESERVES

The liability for loss and LAE reserves is determined on an individual-case basis for all claims reported. The liability also includes amounts for unallocated expenses, anticipated future claim development and incurred but not reported ("IBNR").

Activity in the liability for loss and LAE reserves is summarized as follows:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(In thousands)	
Gross reserves, beginning-of-period	$ 324,362	$ 296,230
Less: reinsurance recoverable (1)	(164,429)	(166,396)
Net reserves, beginning-of-period	159,933	129,834
Incurred loss, net of reinsurance, related to:		
Current year	291,741	195,024
Prior year loss development (redundancy) (2)	6,912	1,238
Ceded losses subject to offsetting experience account adjustments (3)	(744)	(1,978)
Prior years	6,168	(740)
Amortization of acquisition fair value adjustment	(47)	—
Total incurred loss and LAE, net of reinsurance	297,862	194,284
Paid loss, net of reinsurance, related to:		
Current year	143,106	114,790
Prior years	109,930	77,398
Total paid loss and LAE, net of reinsurance	253,036	192,188
Net reserves, end-of-period	204,759	131,930
Plus: reinsurance recoverable (1)	349,221	155,018
Gross reserves, end-of-period	$ 553,980	$ 286,948

(1) Reinsurance recoverable in this table includes only ceded loss and LAE reserves.
(2) Reflects loss development from prior accident years impacting pre-tax net income. Excludes losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment.
(3) Reflects losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment, such that there is no impact on pre-tax net income (loss).

The establishment of loss reserves is an inherently uncertain process and changes in loss reserve estimates are expected as such estimates are subject to the outcome of future events. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple interpretations. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such adjustments are made.

During the nine months ended September 30, 2020, the Company experienced $6.9 million of unfavorable loss and LAE reserve development on prior accident years in its Florida homeowners and commercial general liability lines of business, offset by redundancy in the homeowners line of business as a result of lower LAE associated with several catastrophe events.

During the nine months ended September 30, 2019, the Company experienced $1.2 million of unfavorable loss and LAE reserve development on prior accident years in its commercial general liability and personal automobile lines of business, offset by redundancy in the homeowners line of business as a result of lower LAE associated primarily with Hurricane Irma.

As previously disclosed, the Company entered into 30% and 10% retrospectively-rated Florida-only property quota-share treaties, which ended on July 1, 2016 and 2017, respectively. These agreements included a profit share (experience account) provision, under which the Company will receive ceded premium adjustments at the end of the treaty to the extent there is a positive balance in the experience account. This experience account is based on paid losses rather than incurred losses. Due to the retrospectively-rated nature of this treaty, when the experience account is positive we cede losses under these treaties as the claims are paid with an equal and offsetting adjustment to ceded premiums (in recognition of the related change to the experience account receivable), with no impact on net income. Conversely, when the experience account is negative, the Company cedes losses on an incurred basis with no offsetting adjustment to ceded premiums, which impacts net income. Loss development can be either favorable or unfavorable regardless of whether the experience account is in a positive or negative position.

9. LONG-TERM DEBT

Refer to Note 8 of our 2019 Form 10-K for information regarding our long-term debt.

10. INCOME TAXES

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act contains several relief provisions for corporations and lifts certain deduction limitations originally imposed by the Tax Cut and Jobs Act. The CARES Act, among other things, includes temporary changes regarding the prior and future utilization of net operating losses ("NOL"), temporary changes to the prior and future limitations on interest deductions, temporary suspension of certain payment requirements for the employer portion of Social Security taxes and the creation of certain refundable employee retention credits. The Company has been evaluating the various provisions of the CARES Act. As described below, the Company did utilize the NOL provision in the current year.

Our effective income tax rate is the ratio of income tax expense (benefit) over our income (loss) before income taxes. The effective income tax rate was 38.1% and 13.4% for the three months ended September 30, 2020 and 2019, respectively. The effective income tax rate was 37.4% and 19.7% for the nine months ended September 30, 2020 and 2019, respectively. Differences in the effective tax and the statutory Federal income tax rate of 21% are driven by state income taxes and anticipated annual permanent differences, including estimates for tax-exempt interest, dividends received deduction, and executive compensation as well as NOL carrybacks from the impact of the CARES Act.

The Company had an uncertain tax position of $0.6 million and $0.4 million as of September 30, 2020 and December 31, 2019, respectively. The Company does not have a valuation allowance on its deferred income tax asset as of September 30, 2020 and December 31, 2019.

We recognize accrued interest and penalties related to unrecognized tax benefits in the consolidated statements of operations and statements of comprehensive income (loss). For the three and nine months ended September 30, 2020, the Company recognized $0.2 million of expense related to an uncertain tax position. For the three and nine months ended September 30, 2019, the Company recognized $0.2 million of benefit related to an uncertain tax position and our associated accrued interest and penalties was less than $0.1 million.

11. COMMITMENTS AND CONTINGENCIES

Litigation and Legal Proceedings

In the ordinary course of business, the Company is involved in various legal proceedings, specifically claims litigation. The Company's insurance subsidiaries participate in most of these proceedings by either defending third-party claims brought against insureds or litigating first-party coverage claims. The Company accounts for such activity through the establishment of loss and LAE reserves. The Company's management believes that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, is immaterial to the Company's consolidated financial statements. The Company is also occasionally involved in other legal and regulatory proceedings, some of which may assert claims for substantial amounts, making the Company party to individual actions in which extra-contractual damages, punitive damages or penalties, such as claims alleging bad faith in the handling of insurance claims, are sought.

The Company reviews the outstanding matters, if any, on a quarterly basis. The Company accrues for estimated losses and contingent obligations in the consolidated financial statements if and when the obligation or potential loss from any litigation, legal proceeding or claim is considered probable and the amount of the potential exposure is reasonably estimable. The Company records such probable and estimable losses through the establishment of legal expense reserves. As events evolve, facts concerning litigation and contingencies become known and as additional information becomes available, the Company's management reassesses its potential liabilities related to pending claims and litigation and may revise its previous estimates and make appropriate adjustment to the financial statements. Estimates that require judgment are subject to change and are based on management's assessment, including the advice of legal counsel, the expected outcome of litigation and legal proceedings or other dispute resolution proceedings or the expected resolution of contingencies. The Company's management believes that the Company's accruals for probable and estimable losses are reasonable and that the amounts accrued do not have a material effect on the Company's consolidated financial statements.

Assessment Related Activity

The Company operates in a regulatory environment where certain entities and organizations have the authority to require us to participate in assessments. Currently these entities and organizations include: Florida Insurance Guaranty Association ("FIGA"), Citizens Property Insurance Corporation ("Citizens"), FHCF, Georgia Insurers Insolvency Pool ("GIIP"), Special Insurance Fraud Fund ("SIIF"), Fair Access to Insurance Requirements Plan ("FAIRP"), Property Insurance Association of Louisiana ("PIAL"), South Carolina Property & Casualty Insurance Guaranty Association ("SCPCIGA"), Texas Property and Casualty Insurance Guaranty Association ("TPCIGA"), Texas Windstorm Insurance Association ("TWIA"), Alabama Insurance Guaranty Association ("AIGA"), and Alabama Insurance Underwriters Association ("AIUA"). As a direct premium writer, we are required to participate in certain insurer solvency associations under the applicable laws in the states in which we do business. One form of assessment requires us to collect the assessment from our policyholders and then remit the collected amounts to the assessing entity, which does not have any impact on our financial results. We are also subject to assessments that require us to pay the full amount of the assessment to the assessing entity and then we are permitted to make rate filings to allow us to recoup the amount of the assessment from our policyholders over time.

In connection with its automobile line of business, which is currently winding down, FNIC is also required to participate in an insurance apportionment plan under Florida law, which is referred to as a JUA Plan. The JUA Plan provides for the equitable apportionment of any profits realized, or losses and expenses incurred, among participating automobile insurers. In the event of an underwriting deficit incurred by the JUA Plan, which is not recovered through the policyholders in the JUA Plan, such deficit shall be recovered from the companies participating in the JUA Plan in the proportion that the net direct written premiums of each such member during the preceding calendar year bear to the aggregate net direct premiums written in this state by all members of the JUA Plan. There were no material assessments by the JUA Plan as of December 31, 2019. Future assessments by the JUA and the JUA Plan are indeterminable at this time.

Leases

The Company is committed under various operating lease agreements for office space.

The right-of-use asset is reflected in other assets and the lease liability is reflected in other liabilities on our consolidated balance sheets. Lease expense, net of sublease income is reflected in general and administrative expenses on our consolidated statements of operations.

Additional information related to our operating lease agreement for office space consisted of the following:

	September 30, 2020
	(In thousands)
Right-of-use asset	$ 7,605
Accrued rent	(245)
Right-of-use asset, net	$ 7,360
Lease liability	$ 7,605
Weighted average discount rate	4.70 %
Weighted average remaining years of lease term	7.9

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Lease expense	$ 280	$ 260	$ 839	$ 779
Sublease income	(34)	(49)	(303)	(127)
Lease expense, net	$ 246	$ 211	$ 536	$ 652
Net cash provided by (used in) operating activities	$ (223)	$ (188)	$ (456)	$ (440)

The interest rates implicit in our leases were not known, therefore the weighted-average discount rate above was determined by what FedNat would have had to pay to borrow the lease payments in a similar economic environment that existed at inception of our leases while considering our general credit and the theoretical collateral of the office space. In the event of a change to lease term, the Company would re-evaluate all inputs and assumptions, including the discount rate.

12. SHAREHOLDERS' EQUITY

Common Stock Repurchases

The Company may repurchase shares in open market transactions in accordance with Rule 10b-18 or under Rule 10b5-1 of the Exchange Act from time to time in its discretion, based on ongoing assessments of the Company’s capital needs, the market price of its common stock and general market conditions. The amount and timing of all repurchase transactions are contingent upon market conditions, applicable legal requirements and other factors.

In December 2019, the Company’s Board of Directors authorized a share repurchase program under which the Company may repurchase up to $10.0 million of its outstanding shares of common stock from January 1, 2020 through December 31, 2020. In March 2020, the Company’s Board of Directors authorized an additional $10.0 million increase to the share repurchase program. This increased authorization will allow the Company to purchase up to $20 million of shares outstanding through December 31, 2020. During the nine months ended September 30, 2020, the Company repurchased 800,235 shares of its common stock at a total cost of $10.0 million, which is an average price per share of $12.50. As of September 30, 2020, and as of the filing of this report, the remaining availability for future repurchases of our common stock under this program was $10.0 million.

Securities Offerings

In June 2018, the Company filed with the Securities and Exchange Commission ("SEC") on Form S-3, a shelf registration statement enabling the Company to offer and sell, from time to time, up to an aggregate of $150.0 million of securities. No securities have been offered or sold under this registration statement.

Share-Based Compensation Expense

Share-based compensation arrangements include the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Restricted stock	$ 344	$ 467	$ 1,066	$ 1,463
Performance stock	42	135	128	497
Total share-based compensation expense	$ 386	$ 602	$ 1,194	$ 1,960
Recognized tax benefit	$ 95	$ 137	$ 293	$ 481
Intrinsic value of options exercised	106	2	110	2
Fair value of restricted stock vested	19	482	1,659	1,715

The intrinsic value of options exercised represents the difference between the stock option exercise price and the weighted average closing stock price of FNHC common stock on the exercise dates, as reported on the NASDAQ Global Market.

Stock Option Awards

A summary of the Company's stock option activity includes the following:

	Number of Shares	Weighted Average Option Exercise Price
Outstanding at January 1, 2020	38,850	$ 3.80
Granted	—	—
Exercised	(13,100)	3.24
Cancelled	—	—
Outstanding at September 30, 2020	25,750	$ 3.99

Restricted Stock Awards

The Company recognizes share-based compensation expense for all restricted stock awards ("RSAs") held by the Company's directors, executives and other key employees. For all RSA awards, excluding grants based on total relative shareholder return ("TSR"), the accounting charge is measured at the grant date as the fair value of FNHC common stock and expensed as non-cash compensation over the vesting term using the straight-line basis for service awards and over successive one-year requisite service periods for performance-based awards. Our expense for our performance awards depends on achievement of specified results; therefore, the ultimate expense can range from 0% to 250% of target. Our TSR-based cliff vesting awards contain performance criteria which are tied to the achievement of certain market conditions. The TSR grant date fair value was determined using a Monte Carlo simulation and, unlike the performance condition awards, the expense is not reversed if the performance condition is not met. This value is recognized as expense over the requisite service period using the straight-line recognition method.

During the nine months ended September 30, 2020 and 2019, the Board of Directors granted 210,272 and 140,156 RSAs, respectively, vesting over three or five years, to the Company's directors, executives and other key employees.

RSA activity includes the following:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	255,345	$ 17.82
Granted	210,272	11.82
Vested	(89,839)	18.46
Cancelled	—	—
Outstanding at September 30, 2020	375,778	$ 14.32

The weighted average grant date fair value is measured using the closing price of FNHC common stock on the grant date, as reported on the NASDAQ Global Market.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) associated with debt securities - available-for-sale consisted of the following:

	Three Months Ended September 30,					
	2020			2019		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
	(In thousands)					
Accumulated other comprehensive income (loss), beginning-of-period	$ 19,065	$ (4,675)	$ 14,390	$ 12,404	$ (3,144)	$ 9,260
Other comprehensive income (loss) before reclassification	2,618	(642)	1,976	3,921	(854)	3,067
Reclassification adjustment for realized losses (gains) included in net income	(798)	195	(603)	(893)	214	(679)
	1,820	(447)	1,373	3,028	(640)	2,388
Accumulated other comprehensive income (loss), end-of-period	$ 20,885	$ (5,122)	$ 15,763	$ 15,432	$ (3,784)	$ 11,648

	Nine Months Ended September 30,					
	2020			2019		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
	(In thousands)					
Accumulated other comprehensive income (loss), beginning-of-period	$ 13,621	$ (3,340)	$ 10,281	$ (5,023)	$ 1,273	$ (3,750)
Other comprehensive income (loss) due to debt securities - held to maturity reclassified to available-for-sale	(58)	14	(44)	—	—	—
Other comprehensive income (loss) before reclassification	16,422	(4,027)	12,395	21,979	(5,431)	16,548
Reclassification adjustment for realized losses (gains) included in net income	(9,100)	2,231	(6,869)	(1,524)	374	(1,150)
	7,264	(1,782)	5,482	20,455	(5,057)	15,398
Accumulated other comprehensive income (loss), end-of-period	$ 20,885	$ (5,122)	$ 15,763	$ 15,432	$ (3,784)	$ 11,648

13. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the period, including vested restricted stock awards during the period. Diluted EPS is computed by dividing net income by the weighted average number of shares outstanding, noted above, adjusted for the dilutive effect of stock options and unvested restricted stock awards. Dilutive securities are common stock equivalents that are freely exercisable into common stock at less than market prices or otherwise dilute earnings if converted. The net effect of common stock equivalents is based on the incremental common stock that would be issued upon the assumed exercise of common stock options and the vesting of RSAs using the treasury stock method. Common stock equivalents are not included in diluted earnings per share when their inclusion is antidilutive.

The following table presents the calculation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands, except per share data)			
Net income (loss) attributable to FedNat Holding Company shareholders	$ (20,745)	$ 4,659	$ (40,091)	$ 7,904
Weighted average number of common shares outstanding - basic	13,708	12,854	13,890	12,831
Net income (loss) per common share - basic	$ (1.51)	$ 0.36	$ (2.89)	$ 0.62
Weighted average number of common shares outstanding - basic	13,708	12,854	13,890	12,831
Dilutive effect of stock compensation plans	—	43	—	49
Weighted average number of common shares outstanding - diluted	13,708	12,897	13,890	12,880
Net income (loss) per common share - diluted	$ (1.51)	$ 0.36	$ (2.89)	$ 0.61
Dividends per share	$ 0.09	$ 0.08	$ 0.27	$ 0.24

Dividends Declared

In February 2020, our Board of Directors declared a $0.09 per common share dividend, payable in March 2020, to shareholders of record on February 14, 2020, amounting to $1.3 million.

In April 2020, our Board of Directors declared a $0.09 per common share dividend, payable in June 2020, to shareholders of record on May 15, 2020, amounting to $1.3 million.

In July 2020, our Board of Directors declared a $0.09 per common share dividend, payable in September 2020, to shareholders of record on August 14, 2020, amounting to $1.2 million.

In November 2020, our Board of Directors declared a $0.09 per common share dividend, payable in December 2020, to shareholders of record on November 16, 2020, amounting to $1.2 million.

14. SUBSEQUENT EVENTS

Dividends Declared

Refer to Note 13 above for information related to our dividend declared in November 2020.

Reinsurance

Refer to Note 6 above for information related to the following reinsurance treaties:

- Effective October 1, 2020, FNIC, with the agreement of Swiss Re, increased its cession percentage from 10% to 20% on its Florida homeowners book of business, on an in-force, new and renewal basis.
- On October 13, 2020, FNIC secured additional reinsurance limit for FNIC's non-Florida book of business to lower its retention for any future named storm events during the remainder of the calendar year.
- On November 3, 2020, FNIC, with the agreement of Anchor Re, increased its cession percentage from 50% to 80%, effective December 1, 2020, on its non-Florida homeowners book of business, on an in-force, new and renewal basis.
- On November 5, 2020, FNIC secured additional reinsurance limit for all states for any future weather events, other than Tropical Depression Eta during the remainder of the calendar year.

Severe Weather Events

The Company experienced impacts from Hurricanes Delta and Zeta, both of which made landfall in the state of Louisiana during the month of October. We expect each storm to exceed our single-event aggregate reinsurance program retention. As of the date hereof, we have 5,042 reported claims and $41.4 million gross incurred losses across all of our states that we do business in and across all three insurance carriers for these two hurricanes. Our preliminary estimate is that we will incur approximately $27 million (pre-tax) of catastrophe losses, net of all recoveries, including reinsurance, on a combined basis for these storms.

Formation of Strategic Review Committee

The Company's Board of Directors has formed a Strategic Review Committee to oversee a review of strategic alternatives and the retention of a firm to serve as financial advisor.

General information about FedNat Holding Company can be found at www.FedNat.com; however, the information that can be accessed through our website is not part of our report. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to the Securities and Exchange Act of 1934 available free of charge on our website, as soon as reasonably practicable after they are electronically filed with the SEC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto included under Part I, Item 1 of this Quarterly Report on Form 10-Q (the "Form 10-Q"). In addition, please refer to our audited consolidated financial statements and notes thereto and related "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our most recent Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Form 10-K").

Unless the context requires otherwise, as used in the remainder of this Form 10-Q, the terms "FNHC," "Company," "we," "us" and "our" refer to FedNat Holding Company and its consolidated subsidiaries.

Below, in addition to providing consolidated revenues and net income (loss), we also provide adjusted operating revenues and adjusted operating income (loss) because we believe these performance measures that are not United States of America generally accepted accounting principles ("GAAP") measures allow for a better understanding of the underlying trend in our business, as the excluded items are not necessarily indicative of our operating fundamentals or performance.

Non-GAAP measures do not replace the most directly comparable GAAP measures and we have included a detailed reconciliation thereof in "Results of Operations" below.

We exclude the after-tax (using our prevailing income tax rate) effects of the following items from GAAP net income (loss) to arrive at adjusted operating income (loss):

- Net realized and unrealized gains (losses), including, but not limited to, gains (losses) associated with investments and early extinguishment of debt;
- Acquisition/integration and other costs and the amortization of specifically identifiable intangibles (other than value of business acquired);
- Impairment of intangibles;
- Income (loss) from initial adoption of new regulations and accounting guidance; and
- Income (loss) from discontinued operations.

We also exclude the pre-tax effect of the first bullet above from GAAP revenues to arrive at adjusted operating revenues.

Forward-Looking Statements

This Form 10-Q or the documents that are incorporated by reference into this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are therefore entitled to the protection of the safe harbor provisions of these laws. These statements may be identified by the use of forward-looking terminology such as "anticipate," "believe," "budget," "contemplate," "continue," "could," "envision," "estimate," "expect," "forecast," "guidance," "indicate," "intend," "may," "might," "outlook," "plan," "possibly," "potential," "predict," "probably," "pro-forma," "project," "seek," "should," "target," "will," "would," "will be," "will continue" or the negative thereof or other variations thereon or comparable terminology. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve a number of risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Management cautions that the forward-looking statements contained in this Form 10-Q are not guarantees of future performance, and we cannot assume that such statements will be realized, or the forward-looking events and circumstances will occur. Factors that might cause such a difference include, without limitation, the risks and uncertainties discussed under "Risk Factors" in our 2019 Form 10-K, and discussed from time to time in our other reports filed with the Securities and Exchange Commission ("SEC"), including this Form 10-Q.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included or incorporated by reference into this Form 10-Q are made only as of the date hereof. We do not undertake and specifically disclaim any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

GENERAL

FedNat Holding Company ("FNHC," the "Company," "we," "us," or "our") is a regional insurance holding company that controls substantially all aspects of the insurance underwriting, distribution and claims processes through our subsidiaries and contractual relationships with independent agents and general agents. We, through our wholly owned subsidiaries, are authorized to underwrite, and/or place homeowners multi-peril ("homeowners"), federal flood and other lines of insurance in Florida and other states. We market, distribute and service our own and third-party insurers' products and other services through a network of independent and general agents.

FedNat Insurance Company ("FNIC"), our largest wholly-owned insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance by the state insurance departments in Florida, Louisiana, Texas, South Carolina, Alabama, Georgia and Mississippi.

Maison Insurance Company ("MIC"), an insurance subsidiary that we acquired on December 2, 2019 (see "Maison Acquisition" below for more information), is licensed as an admitted carrier to write homeowners property and casualty insurance as well as wind/hail only exposures by the state insurance departments in Louisiana, Texas and Florida.

Monarch National Insurance Company ("MNIC"), an insurance subsidiary, is licensed to write homeowners property and casualty insurance in Florida.

Through our wholly-owned subsidiary, FedNat Underwriters, Inc. ("FNU"), we serve as managing general agent for FNIC and MNIC. Maison Managers, Inc. ("MMI"), a wholly-owned subsidiary, serves as the managing general agent for MIC. ClaimCor, LLC ("ClaimCor"), a wholly-owned subsidiary, is a claims solutions company that processes claims for Maison and FNIC.

Material Distribution Relationships

We are a party to an insurance agency master agreement with Ivantage Select Agency, Inc. ("ISA"), an affiliate of Allstate Insurance Company ("Allstate"), pursuant to which we have been authorized by ISA to appoint Allstate agents to offer our FNIC homeowners insurance products to consumers in Florida.

We are a party to a managing general underwriting agreement with SageSure Insurance Managers, LLC ("SageSure") in which they underwrite our FNIC homeowners business outside of Florida.

Overview of Insurance Lines of Business

Homeowners Property and Casualty Insurance

FNIC, MIC and MNIC underwrite homeowners insurance in Florida and FNIC also underwrites insurance in Alabama, Texas, Louisiana, South Carolina and Mississippi and MIC in Louisiana and Texas. Homeowners insurance generally protects an owner of real and personal property against covered causes of loss to that property. As of September 30, 2020, the total homeowners policies in-force was 369,000, of which 217,000 were in Florida and 152,000 were outside of Florida. As of December 31, 2019, the total homeowners policies in-force was 374,000, of which 241,000 were in Florida and 133,000 were outside of Florida.

Florida

Our homeowners insurance products provide maximum dwelling coverage of approximately $3.6 million, with the aggregate maximum policy limit being approximately $6.3 million. We currently offer dwelling coverage "A" up to $4.0 million with an aggregate total insured value of $6.5 million. We continually review and update these limits. The typical deductible is either $2,500 or $1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

Premium rates charged to our homeowners insurance policyholders are continually evaluated to assure that they meet the expectation that they are actuarially sound and produce a reasonable level of profit (neither excessive, inadequate or discriminatory). Premium rates in Florida and other states are regulated and approved by the respective states' office of insurance regulation. We continuously monitor and seek appropriate adjustment to our rates in order to remain competitive and profitable.

Through MIC, we have assumed Florida policies through the state-run insurer Citizens Property Insurance Corporation ("Citizens").

The following are our recent approved rate actions that we have taken across our three insurance subsidiaries:

- In 2020, FNIC applied for a statewide-average rate increase of 7.4% for Florida homeowners multiple-peril insurance policies, which was approved by the Florida Office of Insurance Regulations ("Florida OIR") and became effective for new and renewal policies on June 15, 2020.
- In 2020, FNIC applied for a statewide-average rate increase of 14.9% for Florida dwelling fire insurance policies, which was approved by the Florida OIR and became effective for new and renewal policies on July 15, 2020.
- In 2020, FNIC applied for a statewide-average rate increase of 5.6% for Florida homeowners multiple-peril insurance policies, which was approved by the Florida OIR and became effective for new policies on October 12, 2020 and will become effective for renewal policies on November 12, 2020.
- In 2020, FNIC applied for a statewide-average rate increase of 5.6% for Florida dwelling fire insurance policies, which was approved by the Florida OIR and became effective for new policies on October 12, 2020 and will become effective for renewal policies on November 12, 2020.
- Other rate filings have been filed with the Florida OIR and are pending approval.

Non-Florida

Our non-Florida FNIC homeowners insurance products, produced through our partnership with SageSure, provide maximum dwelling coverage "A" up to $1.8 million, with the aggregate maximum policy limit being approximately $3.6 million. The typical deductible is either $2,500 or $1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

As part of our partnership with SageSure, we entered into a profit share agreement, whereby we share 50% of net profits of this line of business, as calculated per the terms of the agreement, subject to certain limitations, which include limits on the net losses that SageSure can realize. The profit share cost is reflected in commissions and other underwriting expenses on our consolidated statements of operations. Effective July 1, 2020, FNIC entered into a new quota-share treaty with Anchor Re, a wholly-owned Arizona captive reinsurance subsidiary of SageSure, the non-affiliated managing general underwriter that writes FNIC's non-Florida homeowners business. The treaty provides 50% quota-share reinsurance protection on in-force, new and renewal business through June 30, 2021, subject to certain limitations. The treaty arrangement is fully collateralized through Anchor Re. The financial economics of this treaty essentially supplement the 50% profit-sharing agreement that has been and will continue to be in place with SageSure. Thus, this treaty is not expected to have any impact on the pre-tax operating results of the Company, though the components of the combined ratio will be affected by the ceding of premiums, claims and commissions. The Company expects FNIC will receive statutory surplus relief from this new quota-share treaty. On November 3, 2020, FNIC increased its cession percentage from 50% to 80%, effective December 1, 2020, on its non-Florida homeowners book of business, on an in-force, new and renewal basis.

Our MIC non-Florida insurance products include homeowners insurance, manufactured home insurance and dwelling fire insurance. MIC writes both full peril property policies as well as wind/hail only exposures.

The following are our recent approved rate actions that we have taken across our insurance subsidiaries that do business outside of Florida:

- In 2020, MIC applied for a statewide-average rate increase of 14.5% for Texas manufactured home insurance policies, which was approved by the Texas Department of Insurance ("TDI") and became effective for new policies on May 15, 2020 and renewal policies on June 15, 2020.
- In 2020, MIC applied for a statewide-average rate increase of 15.5% for Texas homeowners voluntary wind-only insurance policies, which was approved by the TDI and became effective for new policies on April 15, 2020 and renewal policies on June 1, 2020.
- In 2020, MIC applied for a statewide-average rate increase of 9.8% for Texas homeowners takeout wind-only insurance policies, which was approved by the TDI and became effective for new and renewal policies on June 15, 2020.
- In 2020, FNIC applied for a statewide-average rate increase of 6.9% for South Carolina homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on July 16, 2020 and will become effective for renewal policies on September 1, 2020.
- In 2020, FNIC applied for a statewide-average rate increase of 9.5% for Texas homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on July 16, 2020 and will become effective for renewal policies on November 16, 2020.
- Additional rate filings have been applied for by FNIC and MIC and are pending to be approved by the respective regulatory agency.

Other Insurance Lines of Business

FNIC writes flood insurance through the National Flood Insurance Program ("NFIP"). We write the policy for the NFIP, which assumes 100% of the flood risk while we retain a commission for our service. FNIC offers this line of business in Florida, Louisiana, Texas, Alabama, South Carolina and Mississippi. FNIC plans to file an admitted flood endorsement as an alternative to the NFIP program. MIC writes flood insurance through a partnership with Bintech who assumes 100% of the risk, in Louisiana only.

See the discussion in Item 1: "Business" in our 2019 Form 10-K, for additional information with respect to our business.

Regulation

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. We may be the subject of additional special examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the Florida OIR or LDI.

COVID-19 Impact

To slow and limit the COVID-19 outbreak and protect individuals and the health care systems worldwide, local and Federal governments have taken containment actions, including travel restrictions, testing, contact tracing and lockdowns. Companies have required working from home and in many cases laid off employees. These factors among others have caused global financial markets to experience extreme volatility and disruptions to capital and credit markets. In advance of government mandates, we implemented procedures to help reduce the spread of the outbreak, including having most of our employees work remotely, that are intended to prioritize the safety and health of our employees. In addition, we remained focused on the needs of our insureds and independent agents and fulfilling regulatory requirements and guidelines. During the first nine months of 2020, we did not see a material impact of COVID-19 to our operations, financial condition and results. We cannot at this time determine the comprehensive effect of the outbreak for the remainder of 2020. We currently believe, however, that we have limited, if any, exposure to the pandemic based on our product offerings and contractual coverages, although possible actions that our regulators or other governmental or judicial entities may take may materially adversely impact our coverages in both a retrospective and go-forward manner. We continue our focus on maintaining the safety, security and health of all our stakeholders, including policyholders, employees, partner agents, vendors and shareholders, and monitoring the impacts of the pandemic on our operations, financial condition and results. Based on the Company's already existing business continuity plan, which we have implemented to address local catastrophes events, and based on our financial condition and anticipated operating cash flows, we currently expect to continue to meet our working capital and operating expenditure requirements, even if there is further economic downturn from the pandemic.

Please refer to "Part II, Item 1A., Risk Factors" for more information.

RESULTS OF OPERATIONS

Operating Results Overview - Three Months Ended September 30, 2020 Compared with Three Months Ended September 30, 2019

The following overview does not address all of the matters covered in the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to our shareholders or the investing public. This overview should be read in conjunction with the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in our 2019 Form 10-K.

The following table sets forth results of operations for the periods presented:

	Three Months Ended September 30,		
	2020	% Change	2019
	(Dollars in thousands)		
Revenues:			
Gross premiums written	$ 180,152	13.2 %	$ 159,131
Gross premiums earned	183,518	26.1 %	145,546
Ceded premiums	(99,972)	71.9 %	(58,172)
Net premiums earned	83,546	(4.4)%	87,374
Net investment income	2,404	(40.9)%	4,068
Net realized and unrealized investment gains (losses)	1,324	66.8 %	794
Direct written policy fees	3,603	43.3 %	2,514
Other income	6,439	36.2 %	4,726
Total revenues	97,316	(2.2)%	99,476
Costs and expenses:			
Losses and loss adjustment expenses	99,016	59.4 %	62,105
Commissions and other underwriting expenses	24,580	(1.1)%	24,854
General and administrative expenses	5,333	1.7 %	5,246
Interest expense	1,915	1.1 %	1,894
Total costs and expenses	130,844	39.0 %	94,099
Income (loss) before income taxes	(33,528)	(723.5)%	5,377
Income tax expense (benefit)	(12,783)	(1,880.4)%	718
Net income (loss)	$ (20,745)	(545.3)%	$ 4,659
Ratios to net premiums earned:			
Net loss ratio	118.5 %		71.1 %
Net expense ratio	35.8 %		34.4 %
Combined ratio	154.3 %		105.5 %

(1) Net loss ratio is calculated as losses and loss adjustment expenses ("LAE") divided by net premiums earned.
(2) Net expense ratio is calculated as all operating expenses less interest expense divided by net premiums earned.
(3) Combined ratio is calculated as the sum of losses and LAE and all operating expenses less interest expense divided by net premiums earned.

The following table sets forth a reconciliation of GAAP to non-GAAP measures:

	Three Months Ended September 30, 2020	2019
	(Dollars in thousands)	
Revenue		
Total revenues	$ 97,316	$ 99,476
Less:		
Net realized and unrealized investment gains (losses)	1,324	794
Adjusted operating revenues	$ 95,992	$ 98,682
Net Income (Loss)		
Net income (loss)	$ (20,745)	$ 4,659
Less:		
Net realized and unrealized investment gains (losses)	793	634
Acquisition and other costs	(15)	(238)
Amortization of identifiable intangibles	(22)	—
Gain (loss) on early extinguishment of debt	—	(29)
Adjusted operating income (loss)	$ (21,501)	$ 4,292
Income tax rate assumed for reconciling items above	40.10 %	18.26 %

Revenue

Total revenue decreased $2.2 million or 2.2%, to $97.3 million for the three months ended September 30, 2020, compared with $99.5 million for the three months ended September 30, 2019. The slight decrease was driven by lower net premiums earned as increases in ceded premiums outpaced the growth in gross premiums earned. Additionally, lower net investment income was offset by higher policy fees and higher brokerage income, all of which are discussed in further detail below.

Gross Premiums Written

The following table sets forth the gross premiums written for the periods presented:

	Three Months Ended September 30, 2020	2019
	(In thousands)	
Gross premiums written:		
Homeowners Florida	$ 106,101	$ 115,341
Homeowners non-Florida	68,447	38,790
Federal flood	5,660	5,019
Non-core (1)	(56)	(19)
Total gross premiums written	$ 180,152	$ 159,131

(1) Reflects exited lines of business.

Gross premiums written increased $21.1 million, or 13.2%, to $180.2 million in the quarter compared with $159.1 million for the same three-month period last year. Gross premiums written increased by $7.0 million from FNIC's non-Florida business and $28.3 million from Maison, which was partially offset by a $15.1 million decrease in FNIC's Florida business, as we reduce our exposures in this market. Overall, Homeowners grew 13.2%.

Gross Premiums Earned

The following table sets forth the gross premiums earned for the periods presented:

	Three Months Ended September 30,	
	2020	2019
	(In thousands)	
Gross premiums earned:		
Homeowners Florida	$ 115,346	$ 113,062
Homeowners non-Florida	63,759	28,431
Federal flood	4,469	3,896
Non-core (1)	(56)	157
Total gross premiums earned	$ 183,518	$ 145,546

(1) Reflects exited lines of business.

Gross premiums earned increased $38.0 million, or 26.1%, to $183.5 million for the three months ended September 30, 2020, as compared to $145.5 million for the three months ended September 30, 2019. The higher gross premiums earned was primarily driven by continued non-Florida growth, including $19.9 million from Maison's non-Florida business.

Ceded Premiums Earned

Ceded premiums earned increased $41.8 million, or 71.9%, to $100.0 million in the quarter, compared to $58.2 million in the same three-month period last year. The increase was driven by approximately $26 million higher excess of loss reinsurance spend, as property exposures increased, including from the Maison acquisition, this year as compared to last year. Additionally, there was approximately $15 million of additional ceded premiums related to the 50% quota-share treaty for FNIC's non-Florida book of business that became effective July 1, 2020. The increase to ceded premium earned associated with this new treaty is essentially offset by corresponding reductions in loss and LAE, and commission and other underwriting expenses when comparing the periods. Refer to Note 6 of the notes to our Consolidated Financial Statements for additional information regarding this 50% quota-share treaty.

Net Investment Income

Net investment income decreased $1.7 million, or 40.9%, to $2.4 million during the three months ended September 30, 2020, as compared to $4.1 million during the three months ended September 30, 2019. The decrease was due primarily to the lower interest rate environment in 2020 and elevated third quarter 2019 income earned on debt proceeds that had not yet been deployed on the Maison acquisition, partially offset by fixed income portfolio growth in 2020 from the Maison acquisition.

Net realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains (losses) increased $0.5 million, to $1.3 million for the three months ended September 30, 2020, compared to $0.8 million in the prior year period. We recognized $0.3 million and $(0.6) million in unrealized investment gains (losses) for equity securities during these respective periods. Our current and prior year net realized gains are primarily associated with our portfolio managers, under our control, moving out of positions due to both macro and micro conditions, a typical practice each and every quarter. Furthermore, to mitigate the potential COVID-19 related adverse impact on the financial stability of the issuers of securities we hold, certain positions were liquidated during 2020.

Direct Written Policy Fees

Direct written policy fees increased $1.1 million, or 43.3%, to $3.6 million for the three months ended September 30, 2020, compared with $2.5 million for the three months ended September 30, 2019. The increase is primarily driven by the policy fees generated from Maison's policies in-force and higher fees as a result of FNIC's non-Florida premium growth.

Other Income

Other income included the following for the periods presented:

	Three Months Ended September 30, 2020	% Change	2019
	(Dollars in thousands)		
Other income:			
Commission income	$ 861	18.6 %	$ 726
Brokerage	5,181	44.6 %	3,582
Financing and other revenue	397	(5.0)%	418
Total other income	$ 6,439	36.2 %	$ 4,726

The increase in other income was primarily driven by higher brokerage revenue. The brokerage revenue increase is the result of higher excess of loss reinsurance spend from the reinsurance programs in place during the third quarter of 2020 as compared to the third quarter of 2019.

Expenses

Losses and LAE

Loss and LAE incurred, net of reinsurance, included the following for the periods presented:

	Three Months Ended September 30, 2020		2019	
	Amount	Net Loss Ratio	Amount	Net Loss Ratio
	(In thousands)			
Current accident year, excluding catastrophes:				
Homeowners	$ 61,396	73.5 %	$ 50,976	58.3 %
Non-core (1)	—	— %	961	1.1 %
Total current accident year, excluding catastrophes	61,396	73.5 %	51,937	59.4 %
Current year catastrophes (2):				
Florida	21,268	25.4 %	3,000	3.4 %
Texas	1,885	2.3 %	2,500	2.9 %
Louisiana	15,111	18.1 %	1,500	1.7 %
Other states	—	— %	4,000	4.6 %
Total current year catastrophes	38,264	45.8 %	11,000	12.6 %
Prior year loss development (redundancy):				
Homeowners	(1,100)	(1.3)%	(722)	(0.8)%
Non-core (1)	672	0.8 %	436	0.5 %
Ceded losses subject to offsetting experience account adjustments (3)	(216)	(0.3)%	(546)	(0.6)%
Total prior year loss development (redundancy)	(644)	(0.8)%	(832)	(0.9)%
Total net losses and LAE	$ 99,016	118.5 %	$ 62,105	71.1 %

(1) Reflects exited lines of business.
(2) Includes Property Claims Services ("PCS") weather events and other events impacting multiple insureds for which the Company's insurance carriers established catastrophe event codes, net of the benefit of claims handling services. These catastrophe events are typically wind, hail and tornado related weather events. Any individual catastrophe event with gross

losses greater than $20 million, on a pre-tax basis, are considered significant and specifically addressed in the commentary below.

(3) Reflects homeowners losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment, such that there is no impact on pre-tax net income (loss).

Losses and LAE increased $36.9 million, or 59.4%, to $99.0 million for the three months ended September 30, 2020, compared with $62.1 million for the same three-month period last year. The net loss ratio increased 47.4 percentage points, to 118.5% in the current quarter, as compared to 71.1% in the third quarter of 2019.

The higher ratio was the result of two main factors: higher ceded premiums, as discussed earlier, which reduces the net earned premium, the denominator on the net loss ratio calculation as well as higher catastrophe net losses as compared to the prior year period. The third quarter of 2020 catastrophe losses were $38.3 million, net of reinsurance, which included Hurricanes Laura and Sally as well as other severe weather events, which together impacted Florida, Louisiana, and other states. By comparison, the third quarter of 2019 catastrophe net losses were $11.0 million, net of reinsurance, which primarily included impacts from Hurricane Dorian, Hurricane Barry and other severe weather events. Additionally, higher volume of policies in force drove approximately $6 million of higher net losses as compared to 2019. The remaining variance was driven by higher loss pick for FNIC's Florida book of business, as a result of adverse loss experience, as compared to 2019.

Commissions and Other Underwriting Expenses

The following table sets forth the commissions and other underwriting expenses for the periods presented:

	Three Months Ended September 30,	
	2020	**2019**
	(In thousands)	
Commissions and other underwriting expenses:		
Homeowners Florida	$ 13,736	$ 13,187
All others	13,337	6,610
Ceding commissions	(7,909)	(3,203)
Total commissions	19,164	16,594
Fees	1,358	902
Salaries and wages	3,351	2,696
Other underwriting expenses	707	4,662
Total commissions and other underwriting expenses	$ 24,580	$ 24,854

Commissions and other underwriting expenses decreased $0.3 million, or 1.1%, to $24.6 million for the three months ended September 30, 2020, compared with $24.9 million for the three months ended September 30, 2019. The decrease was primarily driven by a higher ceding commissions driven in part by the new 50% quota share in FNIC's non-Florida book of business and lower other underwriting expenses. When comparing these periods, this decrease was partially offset by higher non-Florida acquisition related costs as a result of premium growth. Refer to *Ceded Premium Earned* above for additional information.

The net expense ratio increased 1.4 percentage points to 35.8% in the third quarter of 2020, as compared to 34.4% in the third quarter of 2019.

General and Administrative Expenses

General and administrative expenses increased $0.1 million or 1.7% to $5.3 million for the three months ended September 30, 2020 compared to $5.2 million in the third quarter of 2019.

Interest Expense

Interest expense did not change at $1.9 million for the three months ended September 30, 2020 and 2019.

Income Taxes

Income tax expense (benefit) decreased $13.5 million, to $(12.8) million for the three months ended September 30, 2020, compared to $0.7 million for the three months ended September 30, 2019. The decrease in income tax expense is predominantly the result of the pre-tax loss during the current quarter as compared to income during the third quarter of 2019. Additionally, the Coronavirus Aid, Relief, and Economic Security Act ('CARES Act"), signed into law on March 27, 2020, is allowing us to carry back net operating loss to prior years when federal income taxes were at 35%, which increased our effective tax rate during the current quarter. Refer to Note 10 of the notes to our Consolidated Financial Statements for additional information regarding the CARES Act.

Operating Results Overview - Nine Months Ended September 30, 2020 Compared with Nine Months Ended September 30, 2019

The following overview does not address all of the matters covered in the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to our shareholders or the investing public. This overview should be read in conjunction with the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in our 2019 Form 10-K.

The following table sets forth results of operations for the periods presented:

	Nine Months Ended September 30,		
	2020	% Change	2019
	(Dollars in thousands)		
Revenues:			
Gross premiums written	$ 558,492	21.3 %	$ 460,534
Gross premiums earned	538,988	26.8 %	425,133
Ceded premiums	(238,054)	51.9 %	(156,669)
Net premiums earned	300,934	12.1 %	268,464
Net investment income	9,637	(19.9)%	12,037
Net realized and unrealized investment gains (losses)	8,882	75.9 %	5,050
Direct written policy fees	10,662	45.9 %	7,308
Other income	16,919	29.0 %	13,115
Total revenues	347,034	13.4 %	305,974
Costs and expenses:			
Losses and LAE	297,862	53.3 %	194,284
Commissions and other underwriting expenses	90,205	19.2 %	75,650
General and administrative expenses	17,241	(0.5)%	17,336
Interest expense	5,745	(35.2)%	8,860
Total costs and expenses	411,053	38.8 %	296,130
Income (loss) before income taxes	(64,019)	(750.3)%	9,844
Income tax expense (benefit)	(23,928)	(1,333.4)%	1,940
Net income (loss)	$ (40,091)	(607.2)%	$ 7,904
Ratios to net premiums earned:			
Net loss ratio	99.0 %		72.4 %
Net expense ratio	35.7 %		34.6 %
Combined ratio	134.7 %		107.0 %

(1) Net loss ratio is calculated as losses and LAE divided by net premiums earned.
(2) Net expense ratio is calculated as all operating expenses less interest expense divided by net premiums earned.
(3) Combined ratio is calculated as the sum of losses and LAE and all operating expenses less interest expense divided by net premiums earned.

The following table sets forth a reconciliation of GAAP to non-GAAP measures:

	Nine Months Ended September 30,	
	2020	2019
	(Dollars in thousands)	
Revenue		
Total revenues	$ 347,034	$ 305,974
Less:		
Net realized and unrealized investment gains (losses)	8,882	5,050
Adjusted operating revenues	$ 338,152	$ 300,924
Net Income (Loss)		
Net income (loss)	$ (40,091)	$ 7,904
Less:		
Net realized and unrealized investment gains (losses)	5,320	3,812
Acquisition and other costs	(41)	(774)
Amortization of identifiable intangibles	(67)	—
Gain (loss) on early extinguishment of debt	—	(2,698)
Adjusted operating income (loss)	$ (45,303)	$ 7,564
Income tax rate assumed for reconciling items above	40.10 %	24.52 %

Revenue

Total revenue increased $41.0 million, or 13.4%, to $347.0 million for the nine months ended September 30, 2020, compared with $306.0 million for the nine months ended September 30, 2019. The increase was driven primarily by net premiums growth, including the effect of the acquisition of Maison, and all other revenue components, excluding net investment income, all of which are discussed in further detail below.

Gross Premiums Written

The following table sets forth the gross premiums written for the periods presented:

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Gross premiums written:		
Homeowners Florida	$ 339,799	$ 347,320
Homeowners non-Florida	203,897	100,322
Federal flood	14,967	13,014
Non-core (1)	(171)	(122)
Total gross premiums written	$ 558,492	$ 460,534

(1) Reflects exited lines of business.

Gross written premiums increased $98.0 million, or 21.3%, to $558.5 million for the nine months ended September 30, 2020, compared with $460.5 million for the nine months ended September 30, 2019. Gross premiums written increased from FNIC's non-Florida business and $74.0 million from Maison, partially offset by a $28.5 million decrease in FNIC's Florida business, as we reduce our exposure to this market. Overall, Homeowners grew 21.5%.

Gross Premiums Earned

The following table sets forth the gross premiums earned for the periods presented:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(In thousands)	
Gross premiums earned:		
Homeowners Florida	$ 347,237	$ 338,481
Homeowners non-Florida	179,071	73,928
Federal flood	12,851	11,005
Non-core (1)	(171)	1,719
Total gross premiums earned	$ 538,988	$ 425,133

(1) Reflects exited lines of business.

Gross premiums earned increased $113.9 million, or 26.8%, to $539.0 million for the nine months ended September 30, 2020, as compared to $425.1 million for the nine months ended September 30, 2019. The higher gross premiums earned was primarily driven by continued non-Florida growth, including $59.5 million from Maison's non-Florida business.

Ceded Premiums Earned

Ceded premiums increased $81.4 million, or 51.9%, to $238.1 million for the nine months ended September 30, 2020, compared to $156.7 million for the nine months ended September 30, 2019. The increase was driven by approximately $66 million higher excess of loss reinsurance spend, as property exposures increased, including from the Maison acquisition, this year as compared to last year. Additionally, there was approximately $15 million of additional ceded premium related to the 50% quota-share treaty for FNIC's non-Florida book of business that became effective July 1, 2020. The increase to ceded premium earned associated with this new treaty is essentially offset by corresponding reductions in loss and LAE, and commission and other underwriting expenses when comparing the periods. Refer to Note 6 of the notes to our Consolidated Financial Statements for additional information regarding this 50% quota-share treaty.

Net Investment Income

Net investment income decreased $2.4 million, or 19.9%, to $9.6 million during the nine months ended September 30, 2020, compared to $12.0 million during the nine months ended September 30, 2019. The decrease was primarily due to the lower interest rate environment in 2020 and elevated second quarter 2019 income earned on debt proceeds that had not yet been deployed on the Maison acquisition, partially offset by fixed income portfolio growth from the Maison acquisition.

Net Realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains (losses) were $8.9 million for the nine months ended September 30, 2020, compared to $5.1 million in the prior year period. We recognized $0.4 million and $3.0 million in unrealized investment gains (losses) for equity securities during these respective periods. Our current and prior year net realized gains are primarily associated with our portfolio managers, under our control, moving out of positions due to both macro and micro conditions, a typical practice each and every quarter. Furthermore, to mitigate the potential COVID-19 related adverse impact on the financial stability of the issuers of securities we hold, certain positions were liquidated during 2020.

Direct Written Policy Fees

Direct written policy fees increased by $3.4 million, or 45.9%, to $10.7 million for the nine months ended September 30, 2020, compared with $7.3 million during the nine months ended September 30, 2019. The increase is primarily driven by the policy fees generated from Maison's policies in-force and higher fees as a result of FNIC's non-Florida premium growth.

Other Income

Other income included the following for the periods presented:

	Nine Months Ended September 30,		
	2020	% Change	2019
		(In thousands)	
Other income:			
Commission income	$ 2,484	0.7 %	$ 2,466
Brokerage	13,173	40.0 %	9,408
Financing and other revenue	1,262	1.7 %	1,241
Total other income	$ 16,919	29.0 %	$ 13,115

The increase in other income was primarily driven by higher brokerage revenue. The brokerage revenue increase is the result of higher excess of loss reinsurance spend from the reinsurance programs in place during the first nine months of 2020 as compared to the first nine months of 2019.

Expenses

Losses and LAE

Loss and LAE incurred, net of reinsurance, included the following for the periods presented:

	Nine Months Ended September 30,			
	2020		2019	
	Amount	Net Loss Ratio	Amount	Net Loss Ratio
		(In thousands)		
Current accident year, excluding catastrophes:				
Homeowners	$ 183,768	61.1 %	$ 145,838	54.3 %
Non-core (1)	—	— %	2,201	0.8 %
Total current accident year, excluding catastrophes	183,768	61.1 %	148,039	55.1 %
Current year catastrophes (2):				
Florida	47,963	15.9 %	23,476	8.8 %
Texas	26,672	8.9 %	11,441	4.3 %
Louisiana	31,551	10.5 %	7,465	2.8 %
Other states	1,740	0.6 %	4,603	1.7 %
Total current year catastrophes	107,926	35.9 %	46,985	17.6 %
Prior year loss development (redundancy):				
Homeowners	4,355	1.4 %	(3,457)	(1.3)%
Non-core (1)	2,557	0.8 %	4,695	1.7 %
Ceded losses subject to offsetting experience account adjustments (3)	(744)	(0.2)%	(1,978)	(0.7)%
Total prior year loss development (redundancy)	6,168	2.0 %	(740)	(0.3)%
Total net losses and LAE	$ 297,862	99.0 %	$ 194,284	72.4 %

(1) Reflects exited lines of business.

(2) Includes PCS weather events and other events impacting multiple insureds for which the Company's insurance carriers established catastrophe event codes, net of the benefit of claims handling services. These catastrophe events are typically wind, hail and tornado related weather events. Any individual catastrophe event with gross losses greater than $20 million, on a pre-tax basis, are considered significant and specifically addressed in the commentary below.
(3) Reflects homeowners losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment, such that there is no impact on pre-tax net income (loss).

Losses and LAE increased $103.6 million, or 53.3%, to $297.9 million for the nine months ended September 30, 2020, compared with $194.3 million for the same period last year. The net loss ratio increased 26.6 percentage points, to 99.0% in the first nine months of 2020, as compared to 72.4% in the first nine months of 2019. The higher loss ratio was primarily the result of higher catastrophe net losses when comparing the periods, as the first nine months of 2020 included $107.9 million, net of reinsurance. Approximately $37 million of catastrophe net losses from FNIC's non-Florida book of business was subject to a 50% profit-sharing agreement prior to the 50% quota share becoming effective on July 1, 2020, as discussed above.

The first nine months of 2020 catastrophe net losses were $107.9 million, net of reinsurance, which included Hurricanes Laura and Sally as well as a number of hail, wind-related severe weather events, which together impacted Florida, Louisiana, Texas and other states. By comparison, the first nine months of 2019 catastrophe net losses were $47 million, net of reinsurance, which primarily included the impacts of Hurricane Dorian, Hurricane Barry and Tropical Storm Imelda. Additionally, higher volume of policies in force drove approximately $25.0 million of higher losses compared to 2019. Lastly, $10.0 million of higher losses related to higher loss pick in FNIC’s Florida book of business as compared to prior year period.

Also contributing to the higher loss ratio was the strengthening of reserves for prior accident years by $6.9 million, which related primarily to the 2019 accident year in the Florida homeowners line of business.

Commissions and Other Underwriting Expenses

The following table sets forth the commissions and other underwriting expenses for the periods presented:

	Nine Months Ended September 30,	
	2020	**2019**
	(In thousands)	
Commissions and other underwriting expenses:		
Homeowners Florida	$ 41,181	$ 39,810
All others	37,789	17,796
Ceding commissions	(13,969)	(8,893)
Total commissions	65,001	48,713
Fees	3,694	2,340
Salaries and wages	10,068	9,090
Other underwriting expenses	11,442	15,507
Total commissions and other underwriting expenses	$ 90,205	$ 75,650

Commissions and other underwriting expenses increased $14.5 million, or 19.2%, to $90.2 million for the nine months ended September 30, 2020, compared with $75.7 million for the nine months ended September 30, 2019. The increase was primarily driven by higher non-Florida acquisition related costs as a result of premium growth. When comparing these periods, this increase was partially offset by a higher ceding commissions driven in part by the new 50% quota share in FNIC's non-Florida book of business and lower other underwriting expense. Refer to *Ceded Premium Earned* above for additional information.

The net expense ratio increased 1.1 percentage points to 35.7% in the first nine months of 2020, as compared to 34.6% in the first nine months of 2019.

General and Administrative Expenses

General and administrative expenses decreased $0.1 million, or 0.5%, to $17.2 million for the nine months ended September 30, 2020, compared with $17.3 million in the prior year period.

Interest Expense

Interest expense decreased $3.2 million to $5.7 million for the nine months ended September 30, 2020, compared with $8.9 million in the prior year period, which included $3.6 million of prepayment fees, including the write-off of remaining debt issuance costs. This decline was partially offset by the fact that our March 2019 debt offering was only outstanding for a portion of the first quarter of 2019.

Income Taxes

Income tax expense (benefit) decreased $25.8 million, to $(23.9) million for the nine months ended September 30, 2020, compared to $1.9 million for the nine months ended September 30, 2019. The decrease in income tax expense is predominantly the result of the pre-tax loss during the first nine months of the current year as compared to income during the corresponding period in 2019. Additionally, the CARES Act, signed into law on March 27, 2020, is allowing us to carry back net operating loss to prior years when federal income taxes were at 35%, which increased our effective tax rate during the current quarter. Refer to Note 10 of the notes to our Consolidated Financial Statements for additional information regarding the CARES Act.

Consolidated Company Outlook - Changing Financial Trends

Beginning October 1, 2020, FNIC increased their quota share cession percentage from 10% to 20% on its Florida homeowners book of business. This increase will affect the components of the combined ratio by the change in the ceding of premiums, claims and commissions. Refer to Note 6 for further information on the quota share treaty.

Beginning December 1, 2020, FNIC increased their quota share cession percentage from 50% to 80% on its non-Florida homeowners book of business. This increase will affect the components of the combined ratio by the change in the ceding of premiums, claims and commissions. Refer to Note 6 for further information on the quota share treaty.

As discussed in more detail under “Item 1A. Risk Factors,” the private reinsurance market has been and is expected to remain in a “hard” market cycle, with the result that available terms are less favorable and could cause more financial exposure to the Company. The Company has attempted to mitigate these impacts by purchasing additional coverage where available. Refer to Note 6 for further information on the additional coverage. There can be no assurances, however, that such additional coverage will eliminate all financial exposure. Please see “Liquidity and Capital Resources—Overview” for more information.

The Company experienced impacts from Hurricanes Delta and Zeta, both of which made landfall in the state of Louisiana during the month of October. For the fourth quarter of 2020, we are expecting to incur approximately $27 million (pre-tax) of catastrophe losses, net of all recoveries, including reinsurance, on a combined basis for these storms.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of funds are gross written premiums, investment income, commission income and fee income. Our primary uses of funds are the payment of claims, catastrophe and other reinsurance premiums and operating expenses. As of September 30, 2020, the Company held $553.6 million in investments. Cash and cash equivalents decreased $84.1 million, to $49.3 million as of September 30, 2020, compared with $133.4 million as of December 31, 2019. Total shareholders’ equity decreased $47.2 million, to $201.5 million as of September 30, 2020, compared with $248.7 million as of December 31, 2019 due primarily to a net loss and repurchases of common stock.

On March 5, 2019, the Company closed on an offering of $100 million of Senior Unsecured Notes due 2029, which bear interest at the annual rate of 7.5%. The net proceeds of the offering were in part used to redeem all $45 million of the Company's Senior Unsecured Fixed Rate Notes due 2022 and the Company's Senior Notes due 2027. Additionally, the remaining cash from the offering was used to purchase the Maison Companies and for other general corporate purposes, including repurchases of shares of our common stock and managing the capital needs of our subsidiaries. Refer to Notes 3 and 8 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of the 2019 Form 10-K, for additional information regarding the 2029 Notes as well as the acquisition of the Maison Companies.

Among other things, the 2029 Notes contain customary covenants that limit the Company's ability to enter into certain operational and financial transactions, including, but not limited to incurring additional debt above certain thresholds. If the Company's debt to capital ratio exceeds 35%, the Company would be precluded from incurring additional debt or from paying common stock dividends. No acceleration of the related debt would occur, unless the debt to capital ratio was driven above 35% by specific actions taken by the Company. The Company's actual debt to capital ratio as of September 30, 2020 was approximately 32.9%.

Historically, we have met our liquidity requirements primarily through cash generated from operations. During the first nine months of 2020, property and casualty businesses, including FNHC's insurance carriers, have been impacted by catastrophes, hail, and wind-related severe weather events and private reinsurers have tightened coverage provisions and raised the cost of their coverages. Although we currently continue to have adequate liquidity and capital, management is continually monitoring and adjusting its liquidity and capital plans for FNHC and its subsidiaries in light of the aforementioned challenges. Additional weather-related events and actions by reinsurers could adversely affect the Company's ability to access sources of liquidity, especially due to our elevated debt to capital ratio and debt covenants discussed above, and there can be no assurance that additional financing will be available to us on favorable terms, or at all.

Statutory Capital and Surplus of our Insurance Subsidiaries

As described more fully in Part I, Item 1. Business, Regulation of our 2019 Form 10-K, the Company's insurance operations are subject to the laws and regulations of the states in which we operate. The Florida OIR and their regulatory counterparts in other states utilize the National Association of Insurance Commissions ("NAIC") risk-based capital ("RBC") requirements, and the resulting RBC ratio, as a key metric in the exercise of their regulatory oversight. The RBC ratio is a measure of the sufficiency of an insurer's statutory capital and surplus. In addition, the RBC ratio is used by insurance industry ratings services in the determination of the financial strength ratings (i.e., claims paying ability) they assign to insurance companies. As of September 30, 2020 and December 31, 2019, FNIC's statutory surplus, which includes MNIC, was $96.8 million and $141.8 million, respectively. As of September 30, 2020 and December 31, 2019, MIC's statutory surplus was $46.8 million and $50.7 million, respectively.

Based upon the 2019 statutory financial statements for FNIC, MIC and MNIC, statutory surplus exceeded the regulatory action levels established by the NAIC's RBC requirements.

Based on RBC requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its ACL, as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150.0% of the ACL amount. The third action level, ACL, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70.0% of the ACL amount. FNIC, MNIC and MIC had ratios of statutory surplus to its ACL of 323.9%, 1,128.7% and 305.7%, respectively, as of December 31, 2019.

As of September 30, 2020, the Company has $61 million of liquidity in its holding company and non-regulated subsidiaries (collectively referred to "holding company liquidity") that is available for general corporate purposes, including supporting the capital requirements of its insurance subsidiaries. The Company currently expects to end 2020 with RBC levels at or above 300% in its insurance carriers, and with remaining holding company liquidity of approximately $50 million. These projected figures can vary for a variety of reasons and do not contemplate any U.S. landfall by Tropical Depression Eta, the net retention for which could be impacted by a potential gap in reinsurance coverage as a result of the non-cascading terms on a portion of our reinsurance program. While difficult to quantify any gap in reinsurance coverage, due to its dependency on ultimate gross losses from Hurricanes Delta and Zeta, the Company currently estimates that any such gap for Tropical Depression Eta would only emerge if Eta made U.S. landfall and resulted in losses in excess of approximately $47 million. Refer to "Part II, Item 1A., Risk Factors" for more information. A reinsurance purchase in early November specifically excludes Tropical Depression Eta and has mitigated all or some of the potential gap in coverage for an event arising after Tropical Depression Eta, if Tropical Depression Eta does not make landfall. As discussed in Overview above, over time, additional weather-related events and actions by reinsurers could adversely affect the Company's insurance carriers' ability to maintain adequate capital levels and FNHC may not be able to contribute necessary capital.

Cash Flows Discussion

We currently believe that existing cash and investment balances, when combined with anticipated cash flows, will be adequate to meet our expected liquidity needs in both the short-term and the reasonably foreseeable future. Please see "COVID-19 Impact" above for a discussion of the potential impact of the COVID-19 pandemic on us. We currently believe the combined balances will be sufficient to meet our ongoing operating requirements and anticipated cash needs, and satisfy the covenants in our senior notes. Future growth strategies may require additional external financing and we may from time to time seek to obtain external financing. We cannot assure that additional sources of financing will be available to us on favorable terms, or at all, or that the terms of any such financing would not negatively impact our results of operations. The continue declaring and paying of dividends is subject to our compliance with debt covenants, future liquidity needs and reserve requirements.

Subject to our compliance with capital requirements as described above, we may consider various opportunities to deploy our capital, including repurchases of our common stock if such repurchases represent a more favorable use of available capital.

Operating Activities

Net cash (used in) operating activities decreased to $(78.8) million in the nine months ended September 30, 2020 compared to net cash provided by $26.4 million in the same period in 2019. This decrease reflects higher expenses paid, including those related to commissions and underwriting expenses and losses and LAE, partially offset by higher net premiums collected, in the first nine months of 2020 as compared to the corresponding period in 2019.

Investing Activities

Net cash provided by investing activities of $8.9 million in the nine months ended September 30, 2020 reflected sales, maturities and redemptions of our debt and equity investment securities of $419.1 million, partially offset by purchases of debt and equity investment securities of $407.6 million. Net cash used in investing activities of $16.7 million in the nine months ended September 30, 2019 reflected purchases of debt and equity investment securities of $175.1 million, partly offset by sales, maturities and redemptions of our debt and equity investment securities of $160.0 million.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2020 of $14.2 million primarily reflects repurchases of FedNat Holding Company common stock of $10.4 million and dividends paid of $3.8 million. Net cash provided by financing activities of $47.3 million for the nine months ended September 30, 2019 primarily reflects issuance of long-term debt, net of issuance costs, of $98.4 million, partially offset by payment of long-term debt of $48.0 million.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the inflationary effect on the cost of paying losses and LAE.

Insurance premiums are established before we know the amount of losses and LAE and the extent to which inflation may affect such expenses. Consequently, we attempt to anticipate the future impact of inflation when establishing rate levels. While we attempt to charge adequate premiums, we may be limited in raising premium levels for competitive and regulatory reasons. Inflation may also affect the market value of our investment portfolio and the investment rate of return. Any future economic changes that result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred losses and LAE and thereby materially adversely affect future liability requirements.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"), which requires us to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results may materially differ from those estimates.

We believe our most critical accounting estimates inherent in the preparation of our financial statements are: (i) fair value measurements of our investments; (ii) accounting for investments; (iii) premium and unearned premium calculation; (iv) reinsurance contracts; (v) the amount and recoverability of deferred acquisition costs and value of business acquired; (vi) goodwill and other intangible assets; (vii) reserve for loss and losses adjustment expenses; and (viii) income taxes. The accounting estimates require the use of assumptions about certain matters that are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our financial condition, results of operations, and cash flows would be affected.

There have been no significant changes to our critical accounting estimates during the nine months ended September 30, 2020. Refer to Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" included in our 2019 Form 10-K for a more complete description of our critical accounting estimates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our investment objective is to maximize total rate of return after federal income taxes while maintaining liquidity and minimizing risk. Our current investment policy limits investment in non-investment-grade debt securities (including high-yield bonds), and limits total investments in preferred stock, common stock and mortgage notes receivable. We also comply with applicable laws and regulations that further restrict the type, quality and concentration of our investments. In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages.

Our investment policy is established by the Board of Directors' Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of September 30, 2020, approximately 98% of investments were in debt securities and cash and cash equivalents, which are considered to be available-for-sale, based upon our estimates of required liquidity. Approximately 100% of the debt securities are considered available-for-sale and are marked to market. We may in the future consider additional debt securities to be held-to-maturity securities, which are carried at amortized cost. We do not use any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

The only material change to the Company's exposures to market risks since December 31, 2019 relates to COVID-19 and please refer to "Part II, Item 1A., Risk Factors" for details. Please also refer to the 2019 Form 10-K for a discussion of the Company's other exposures to market risks.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness

Our management and our audit committee do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control gaps and instances of fraud have been detected. These inherent limitations include the realities that judgments and decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions.

Part II: OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 11 to our Consolidated Financial Statements set forth in Part I, "Financial Statements" for information about legal proceedings.

Item 1A. Risk Factors

We may experience increased financial exposure due to change in private excess-of-loss reinsurance market terms and conditions.

The private reinsurance market goes through what are known in the industry as "soft" and "hard" market cycles based on factors such as variations in world-wide and regional weather patterns and other natural or man-made catastrophes that produce higher or lower loss experience for the reinsurance industry. During soft market cycles, where losses have been less than expected, advantageous terms are more readily available to us, which reduces our potential exposure by providing broader coverage. During a hard market cycle, where losses have been more than expected, private reinsurance markets typically tighten coverage, potentially resulting in more financial exposure to the Company. Examples of tighter terms include, but are not limited to, the removal of cascading protection and the elimination of individual insurance carrier per-event retentions when there are multiple insurance carriers in a group.

Cascading protection provides broader coverage during years in which we experience multiple events. As the aggregate limit of the preceding layer is exhausted, the adjacent layers above drop down (cascade) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted. In the absence of cascading features, when events occur, a carrier may need to purchase supplemental coverage to backfill layers or potential gaps of coverage ("backfill coverage"), if available, and may have to do so at inopportune times, such as in the middle of hurricane season when availability is scarcer and pricing is higher. If such backfill coverage is not available, the carrier may experience gaps in reinsurance coverage. Because the existence and magnitude of potential gaps in coverage may be dependent on the ultimate catastrophe losses that emerge from preceding storms, some of which may be very recent, quantification of potential gaps can be highly uncertain. In addition, if another potential disturbance is already active at the time of binding backfill coverage, the active disturbance will generally be excluded from the newly bound coverage, which could result in gaps in the reinsurance tower with respect to the active disturbance, if it were to make landfall.

With individual insurance carrier per-event retentions, each insurance carrier has a retention that better matches their current risk appetite and surplus level. With an aggregate per-event retention for the entire group, if only one or two of the insurance carriers are involved in a given event, the larger corporate retention is split between the insurance carriers, usually resulting in a larger retention for the impacted carrier(s).

Restricted terms could also appear in the form of shortened time periods for coverage to be afforded on any one event or requiring 100% of the premium to be paid at the inception of coverage. Given these restrictions, the Company may incur or retain additional risk towards the end of hurricane season.

The reinsurance market for 2020 has been a hard market, with less advantageous terms as described above. As a result, the Company expects to bear higher reinsurance spend and retain more risk itself as a result of the severity of the active 2020 hurricane season. In addition, the Company anticipates that the reinsurance market will remain hard for 2021.

There have been no other material changes from the risk factors previously disclosed in "Part I, Item 1A-Risk Factors," included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, as supplemented in "Part II, Item 1A-Risk Factors" of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 for disclosures regarding significant risks and uncertainties related to our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) **Issuer Purchases of Equity Securities**. The following table sets forth information with respect to purchases of shares of our common stock made during the quarter ended September 30, 2020 by or on behalf of FNHC:

	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans (1)
July 2020	—	$ —	—	$ 10,000,011
August 2020	—	—	—	10,000,011
September 2020	—	—	—	10,000,011

(1) In December 2019, the Company's Board of Directors authorized a share repurchase program under which the Company may repurchase up to $10.0 million of its outstanding shares of common stock from January 1, 2020 through December 31, 2020. In March 2020, the Company's Board of Directors authorized an additional $10.0 million increase to the share repurchase program. As of September 30, 2020, the remaining availability for future repurchases of our common stock was $10.0 million. Any such purchases would be made in the open market in accordance with Rule 10b-18 or under Rule 10b5-1 of the Exchange Act.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
10.1	Non-Florida Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and between FedNat Insurance Company and subscribing reinsurers*
10.2	Non-Reinstatable Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.3	Third-Fifth Cascading Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.4	Fourth Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.5	First, Second and Fifth Cascading Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.6	Private Single Retention Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.7	Second-Fifth Cascading Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.8	Third-Fifth Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.9	Second-Fifth Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.10	Third-Fifth Cascading Reinstatement Premium Protection Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.11	First-Third Cascading Reinstatement Premium Protection Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.12	Second Single Retention Reinstatement Premium Protection Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.13	Second Reinstatement Premium Protection Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.14	First Reinstatement Premium Protection Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.15	Private Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.16	Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.17	Reinstatement Premium Protection Reinsurance Contract effective July 1, 2020, by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.18	Private Second-Fifth Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.19	Non-Florida Second Event Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2020 by and between FedNat Insurance Company and subscribing reinsurers*
10.20	First-Third Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*

10.21	Second-Fourth Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch national Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.22	Private Third-Fifth Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.23	First-Third Single Retention Cascading Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.24	Second and Third Event Excess Catastrophe Reinsurance Contract effective July 1, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.25	Supplemental Excess Catastrophe Reinsurance Contract effective July 28, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.26	Main Supplemental Excess Catastrophe Reinsurance Contract effective September 3, 2020 by and among FedNat Insurance Company, Monarch National insurance Company, Maison Insurance Company and subscribing reinsurers*
10.27	Supplemental Excess Catastrophe Reinsurance Contract effective September 3, 2020 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.28	Private Supplemental Excess Catastrophe Reinsurance Contract effective September 3, 2020 by and between FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*
10.29	Net Quota Share Reinsurance Agreement effective July 1, 2020 by and between FedNat Insurance Company and Swiss Reinsurance America Corporation*
10.30	Non-Florida Property Quota Share Reinsurance Contract effective July 1, 2020 by and between FedNat Insurance Company and SageSure Anchor Re, Inc.*
10.31	Employment Agreement dated August 22, 2020 by and between Patrick McCahill and FedNat Holding Company**
10.32	Confidential Information, Non-Solicitation and Non-Competition Agreement dated August 22, 2020 by and between FedNat Holding Company and Patrick McCahill**
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act**
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act**
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act**
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act**
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

* Filed herewith. Certain identified information has been omitted from this exhibit in accordance with and as permitted by Item 601(b)(10)(iv) of Regulation S-K.

** Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FEDNAT HOLDING COMPANY

By: */s/ Michael H. Braun*

Michael H. Braun, Chief Executive Officer
(Principal Executive Officer)

/s/ Ronald Jordan

Ronald Jordan, Chief Financial Officer
(Principal Financial Officer)

Date: November 6, 2020