

February 27, 2017

Scott H. Spencer, Esquire
Stevens & Lee
17 North Second Street, 16th Floor
Harrisburg, PA 17101

Re: Mutual to Stock Conversion of
The Mutual Insurance Company of Lehigh County ("Lehigh")
Clearfield County Grange Mutual Fire Insurance Company ("Clearfield")

Dear Mr. Spencer:

The Pennsylvania Insurance Department ("Department") made a preliminary review of the demutualization applications of Lehigh and Clearfield. Based upon this preliminary review, the Department has compiled the below list of additional items necessary to the review of the filings. Your responses and any related documents will become part of the public files, unless you have asserted the confidentiality of the information and the Department has accepted such assertion. When preparing your response, please reference the number of the Department's request to which you are responding.

Application

1. All documents should be amended to reflect the new name of the intermediate stock holding company as Charter Lane Holdings Inc. ("SHC") and to delete any references to members, Certificate of Organization and the LLC Operating Agreement.
2. I have seen several instances to support that SHC becomes a party to the transaction only if the related conversion and merger occurs ("Related Conversion and Merger"). (See page 2 of the application and reference to SHC only in the Merger Agreement and not in the Plan of Conversion.) However, the post-conversion organizational chart (assuming the merger is not consummated) includes SHC. Given that the request is for Department approval of the conversions with or without the Related Conversion and Merger, it needs to be clear to both the Department and to Eligible Members what the transaction is in each case. Please address.
3. Per application, page 4 - "Initially, the current Board of Directors of Clearfield Mutual will become the Board of Directors of Community Holdings Management Inc." ("MHC"). Is this the intent even if the Related Conversion and Merger does not occur?

Plan of Conversion

4. **I. Background and Business Purpose.** – In the case of Lehigh, references the issuance of 300,000 shares of common stock, \$5.00 par value to MHC and in the case of Clearfield, the issuance of 30,000 shares of common stock, \$5.00 par value to MHC. Each company, upon conversion, will be required to individually maintain a minimum capital of \$950,000 and paid-in and contributed surplus of \$475,000 for the lines of authority for which each is presently licensed. Please address how each company will become capitalized to satisfy the required minimum capital and surplus.
5. **II. Definitions – “Merge Agreement”** - What is meant by the reference to “plan of reorganization?”
6. **III. Application for Approval, 3.2 Notice to Members** – Provide a copy of the final notice to members along with the date of mailing. Provide the number of Eligible Members and report on each company’s success in obtaining addresses for all such members.

Notice of Special Meeting of Members

7. Paragraph (1) of the Lehigh notice has Lehigh merging with and into Clearfield contrary to what has been presented in all other documents as Clearfield merging with and into Lehigh.

Proxy Statement and Cover Letter

8. It is not clear that the conversion will occur with or without the Related Conversion and Merger. Both outcomes should be clearly discussed (to include the organizational chart on page 4).
9. **Page 13 – Amended and Restated Articles of Incorporation and Amended and Restated Bylaws of the Company** – Contains an incorrect new name. Contains reference to shares of common stock with a \$1.00 par value, per share. This conflicts with the filed Plan and draft Articles which references a \$5.00 par value.

Stock Insurance Company Amended and Restated Bylaws

10. **Bylaws, Article IV, 4.01** – I would suggest that you add that the president shall be a director (see Title 15, Section 3132).
11. **Bylaws, Article V, 5.01(a)** – The last sentence does not comply with Title 15, Section 3132.

Business Plan

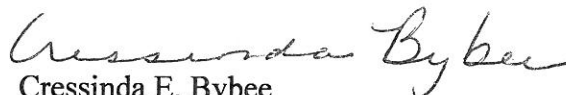
12. I have attached Form DOI-135. Please supplement the combined business plan to ensure that responses to all 24 items have been addressed.
13. Pro formas for the companies individually and for the combined company:
 - a. identify the preparer
 - b. provide for a minimum of five years
 - c. provide RBC
 - d. provide a line item for paid up capital stock
 - e. provide a line item for paid in surplus

Miscellaneous

14. Provide current and pro forma financial statements for MHC and SHC, with and without the Related Conversion and Merger. (Note the standard in 40 P.S. § 917-A for the mutual holding company.)
15. Provide copies of any comments received on the proposed conversions and Related Conversion and Merger.
16. Describe A.M. Best's reaction to the proposed conversions and Related Conversion and Merger.
17. Provide a competitive standard analysis as referenced in 40 P.S. §991.1402(f)(1)(ii).

Feel free to contact me at (717) 783-2144 or cbybee@pa.gov to discuss any of the above requests.

Sincerely,



Cressinda E. Bybee
Chief, Company Licensing Division

Attachment

**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT
BUSINESS PLAN FOR ACQUISITIONS, MERGERS AND REDOMESTICATIONS**

Company Name _____

Holding Company (if applicable) _____

ORGANIZATION AND MANAGEMENT

1. Describe office locations both before and after the transaction (include address and specific functions to be performed as applicable, e.g., Corporate Headquarters, Claims Office, Sales Offices etc.).
2. Please provide the current number of employees for each location for each Company and the corresponding estimated number of employees for each location for each Company after the proposed transaction. Describe the rationale for any anticipated change in the number of employees in each location as a result of the transaction.
3. Please submit an organizational chart of the Company's post acquisition management structure. Titles and names of key management personnel should be included.
4. Please provide a detailed job description for every management position on the organizational chart.
5. Please provide a statement of qualification for each key management person describing relevant insurance experience.
6. Describe the management controls to be used to identify potential short-term liquidity problems, long-term capital needs, and other significant capital and fund management variations or needs.
7. Describe the controls over the financial reporting functions that will be used to ensure that the financial statements are not misstated.
8. Describe the mechanism to be used when creating and monitoring the Company's formal operating budget.
9. Identify the key performance indicators to be tracked by management.

PRODUCTS AND SERVICES

10. Identify the Company's current and projected key products by line of business.
11. Please describe how these products/services are unique or superior to competitive products/services.

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12. Please describe the basis for the Company's proposed rate structure. Will the Company file rates and forms using ISO (or similar rating bureau) or will the Company file independently for rates and forms?

INTENDED MARKET

13. Please describe the results of any market research conducted. The description should include at a minimum:
- the Company's target market(s)
 - approach to sales for each target market and for each line of business (if they differ)
 - the Company's pricing strategies
14. What has the rate of growth been for each market segment over the last five years?
15. What is the projected growth rate in each market segment over the next five years?

POLICYHOLDER SERVICES

16. Please provide the total number of policyholders, by territorial location and line of business, for each company that will be affected by the transaction.
17. As a result of the transaction, will all in-force policies be renewed? If not, describe the process which will be used to determine which in-force policies, by line of business, will not be renewed. Provide a copy of the documents and time frames which will be used to effectuate any non-renewals.
18. Describe any anticipated changes to the current in-force policies, by line of business, that will occur as a result of the transaction. The description should include anticipated changes to coverages, premiums, Company name, etc.
19. Describe the process and proposed time frames which will be used to communicate the changes to the policyholders. Provide a sample of the communications which will be used.

AGENT SERVICES

20. Please provide the total number of agents, by territorial location, for each Company that will be affected by the transaction.

**COMMONWEALTH OF PENNSYLVANIA
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21. What effect will the transaction have on the existing agency/agent contracts for each Company? If any agency/agent contracts will be terminated, please describe the process and time frames to be used in determining which contracts will be terminated.
22. Please describe the process and proposed time frames which will be used to advise the agency/agent of the transaction. Please provide a copy of any materials that will be distributed to the agency/agent in this regard.

FINANCIAL PROJECTIONS

23. Please attach pro forma financial projections consisting of balance sheets and income statements for a minimum of five years, separately indicating Pennsylvania business and National business.

GUIDELINES FOR PRO FORMA FINANCIAL STATEMENTS

- Financial projections should be prepared by a CPA firm, actuarial firm or qualified individual acceptable to the Department. In this regard, please identify the person's name and credentials that prepared the pro forma financial statements.
 - Financial projections must be prepared using statutory accounting principles.
 - All assumptions used in the preparation of the pro forma financial statements must be explained.
 - Please provide the Risk-Based Capital ratio (Total Adjusted Capital/Authorized Control Level Risk-Based Capital) for each of the five years using the pro forma financial projections (attention: ratios should be above the Company Action Level = 200%).
 - Please identify any tax implications avoided by or resulting from this transaction.
 - Please identify any SEC implications resulting from this transaction.
24. Please discuss any proposed reinsurance arrangements.