

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to the Insurance Company
Application of Clearfield County Grange : Mutual-to-Stock Conversion Act, Article
Mutual Fire Insurance Company : VIII-A of the Insurance Company Law of
Requesting Approval of a Plan of : 1921, Act of May 17, 1921, P.L. 682, as
Conversion : amended, added 1995, Dec. 21, P.L. 714,
: 40 P.S. §§911-A et seq.; Sections 1401,
: 1402, and 1403 of the Insurance Holding
: Companies Act, Article XIV of the
: Insurance Company Law of 1921, Act of
: May 17, 1921, P.L. 682, as amended, 40
: P.S. §§991.1401-1403.
: :
: Order No. ID-RC-17-09

DECISION AND ORDER

AND NOW, on this 30th day of June, 2017, Teresa D. Miller, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Mutual-to-Stock Conversion Act and the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of the Parties

1. Clearfield County Grange Mutual Fire Insurance Company ("Clearfield") is a mutual property insurance company organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Clearfield, Pennsylvania.
2. Community Holdings Management Inc. ("MHC") is a to-be-formed mutual insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Allentown, Pennsylvania.

The Filing

3. On July 5, 2016, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received an application (which together with all material received subsequently is hereinafter collectively referenced as "Clearfield Application") from Clearfield requesting approval to convert from mutual to stock form (the "Conversion").
4. The Insurance Company Mutual-To-Stock Conversion Act, Article VIII-A of the Insurance Companies Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§911-A et seq. (the "Conversion Act"), provides that all plans of conversion of domestic mutual insurers must be filed with the Commissioner for approval or disapproval.
5. Section 917-A of the Conversion Act provides that a domestic mutual insurer may adopt an alternative plan of conversion that does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock of the converted stock company if the Commissioner finds that the plan does not prejudice the interests of the policyholders, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.
6. As specified in the Clearfield Application, Clearfield proposes to convert from the mutual-to-stock form pursuant to Section 917-A of the Conversion Act.
7. The Insurance Holding Companies Act, Article XIV of the Insurance Corporation Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that all mergers or other acquisitions of control of domestic insurers must be filed with the Commissioner for approval or disapproval.
8. As specified in the Clearfield Application, MHC proposes to acquire 100% of the issued and outstanding capital stock of Clearfield upon its conversion.
9. The Clearfield Application was filed with the Department pursuant to Section 913-A of the Conversion Act and Section 1402 of the Insurance Holding Companies Act.

Department Procedures

10. On October 1, 2016, the Department published notice in the *Pennsylvania Bulletin* that the request for approval for a mutual-to-stock conversion was submitted by Clearfield. This notice invited interested persons to submit comments to the Department regarding the mutual-to-stock conversion for a 30-day period ("the Comment Period").
11. The Department received no comments regarding the proposed mutual-to-stock conversion during the Comment Period.

Description of the Proposed Mutual-to-Stock Conversion

12. On April 22, 2016, the Board of Directors of Clearfield unanimously adopted a Plan of Conversion from Mutual to Stock Organization and Formation of Mutual Holding Company ("the Initial Plan"). The Board of Directors adopted a First Amended and Restated Plan of Conversion on March 6, 2017 (the "Plan").
13. The Board of Directors of Clearfield believe that the conversion will enhance Clearfield's strategic and financial flexibility and increase its competitive position in a manner that furthers the interests of Clearfield and its members.
14. The Plan provides that:
 - a. Clearfield will convert from mutual to stock form and issue 190,000 shares of Clearfield common stock at \$5.00 par value to MHC, and
 - b. Members of Clearfield will become members of MHC.
15. At the time the Board of Directors of Clearfield adopted the Initial Plan, Clearfield had 3,309 policyholders ("Eligible Members").
16. Clearfield advised the Department that it had, on July 1, 2016, sent to each Eligible Member notice by first class mail advising of the filing of the Clearfield Application with the Department.
17. Section 919-A of the Conversion Act requires that written notice regarding the Plan be sent to all members whose policies were issued after the Initial Plan was adopted by Clearfield's Board of Directors on April 22, 2016.
18. As provided in the Conversion Act, members receiving notice must be advised that each such member is entitled to cancel his or her policy and receive a pro rata refund of unearned premiums.
19. The Department reviewed Clearfield's proposed notice.
20. Clearfield represented that it has provided and continues to provide the required notice.
21. As specified in the Clearfield Application, Clearfield shall hold a meeting of the Eligible Members to vote upon the Plan following receipt of an approving determination by the Commissioner in the instant proceeding.
22. As specified in the Clearfield Application, the affirmative vote of at least two-thirds of the votes cast by the Eligible Members is a required condition to closing under the Plan.

23. The corporate existence and insurance business of Clearfield will continue without interruption as the converted stock insurance company.
24. As described in the Plan, each policy of insurance issued by Clearfield and in force on the Effective Date will remain in force as a policy issued by Clearfield in accordance with the terms of such policy, except that the following rights, to the extent they existed in the policies, will be extinguished on the Effective Date:
 - a. any voting rights of the policyholders provided under the policies;
 - b. any right to share in the surplus of Clearfield provided for under the policies;
and
 - c. any assessment provisions provided for under the policies.

Description of the Proposed Acquisition

25. The March 31, 2017, Quarterly Financial Statement of Clearfield reports unassigned funds of \$2,159,459.
26. The minimum paid up capital stock required for the lines of authority held by Clearfield is \$950,000 as set forth in The Insurance Company Law (40 P.S. §386).
27. The minimum surplus paid in required for the lines of authority held by Clearfield is \$475,000 as set forth in The Insurance Company Law (40 P.S. §386).
28. As specified in the Clearfield Application, at the time of the Conversion, Clearfield would issue a dividend of its unassigned funds to MHC, in an amount of \$1,525,000 plus an additional amount estimated to be \$125,000.
29. As specified in the Clearfield Application, MHC would acquire the 190,000 shares of common stock of Clearfield at \$5.00 par value for \$1,425,000 resulting in a capital account balance of \$950,000 and a surplus paid in account balance of \$475,000.
30. As specified in the Clearfield Application, upon completion of the Conversion and Acquisition, Clearfield would have the statutory minimum amounts of paid up capital and surplus paid in required of a stock property insurance company authorized to write the existing lines of authority currently held by Clearfield.
31. As described in the Application, upon completion of the Conversion, MHC's balance sheet will reflect approximately \$3,582,434 of assets, \$0 of liabilities, and \$3,582,434 of surplus.
32. Section 917-A of the Conversion Act provides that the Department may approve a partial conversion and formation of a mutual holding company provided the mutual

holding company is not insolvent or in hazardous financial condition.

33. Based on the information received and analyses conducted, the Commissioner finds that MHC is not insolvent or in hazardous financial condition.

Related Transactions

34. Concurrent with adoption of the Plan, The Mutual Insurance Company of Lehigh County ("Lehigh"), a Pennsylvania mutual insurance company, adopted a plan of conversion pursuant to which Lehigh will convert from a Pennsylvania mutual insurance company to a Pennsylvania stock insurance company and issue shares of its common stock to MHC (the "Lehigh Conversion"). As a closing condition under the Plan, the Lehigh Conversion shall have been approved by the Commissioner and by the required vote of the eligible members of Lehigh in accordance with law and such transaction shall be proceeding to a closing concurrently with the closing of the Plan.
35. Lehigh and Clearfield have entered into an Agreement and Plan of Merger ("Merger Agreement") pursuant to which after completion of their respective conversions Clearfield will merge with and into Lehigh, with Lehigh surviving the merger. As a closing condition under the Plan, the Merger Agreement shall have been approved by the Commissioner.

Compliance with Statutory Standards

36. Clearfield proposes a partial conversion from mutual to stock form utilizing a mutual holding company structure pursuant to Section 917-A of the Conversion Act.
37. Section 917-A of the Conversion Act establishes standards which an alternative plan of conversion must satisfy in order for approval to be granted.
38. Section 917-A of the Conversion Act provides that the Commissioner shall approve the plan of conversion of a domestic mutual insurer if the Commissioner finds that the plan will not prejudice the interests of the members, the plan is fair and equitable, and the plan is not inconsistent with the purpose and intent of the Conversion Act.
39. Upon effectuation of the Plan, the current policyholders of Clearfield and future policyholders of Clearfield will become the members of MHC.
40. The members of MHC will have the authority, in the aggregate, to elect the Board of Directors of MHC and thereby maintain control over MHC.
41. MHC will initially directly hold all the voting stock of Clearfield and, as a condition to this Order and unless otherwise approved by the Department, MHC will at all times hold at least 50.1% of the voting stock of Clearfield or, in the alternative, 50.1% of the voting stock of an intermediate stock holding company formed to directly hold 100% of

the voting stock of Clearfield.

42. Based on the information contained in the Clearfield Application, the Commissioner finds that the contemplated conversion of Clearfield would not prejudice the interests of the Eligible Members of Clearfield.
43. Based on the information contained in the Clearfield Application, the Commissioner finds that the contemplated conversion of Clearfield is not inconsistent with the purpose and intent of the Conversion Act.
44. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. The Conversion Act provides the Commissioner jurisdiction to review and approve the Plan of Conversion.
2. Section 913-A(e) of the Conversion Act states that the Commissioner may order a hearing on whether the terms of the Plan comply with the Conversion Act after giving written notice to the mutual company and other interested persons, all of whom have the right to appear at the hearing.
3. The parties to the filing did not request a hearing, and, after review of the circumstances and documents relating to the Clearfield Application, the Commissioner did not elect to conduct a hearing as a proper exercise of her statutory discretion.
4. As specified in the Clearfield Application, all policies of Clearfield in force at the time of Conversion would continue in force, and the Conversion would not change, reduce or impair in any way the insurance obligations of Clearfield under any insurance policy issued or contract entered into by Clearfield.
5. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the Conversion would not prejudice the interests of the Eligible Members.
6. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the provisions of the Clearfield Application are fair and equitable.
7. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the Clearfield Application is not inconsistent with the purpose and intent of the Conversion Act.
8. In accordance with Section 917-A of the Conversion Act, the Commissioner finds that MHC will not be insolvent or in hazardous financial condition immediately subsequent to the effectuation of the Plan.

9. As allowed by Section 918-A of the Conversion Act, the Conversion would become effective when the Eligible Members have approved the Plan of Conversion and adopted amended articles of incorporation and such amended articles of incorporation have been filed in the office of the Secretary of the Commonwealth.
10. The Insurance Holding Companies Act grants the Commissioner jurisdiction to review and approve the Acquisition.
11. Under Section 1402(g) of the Insurance Holding Companies Act, the Department shall exempt an acquisition from the requirements of Section 1402 if the acquisition does not have the effect of changing or influencing the control of a domestic insurer.
12. Pursuant to Section 1402(g) of the Insurance Holding Companies Act, the Commissioner concludes that the Acquisition would not change the ultimate controlling persons of Clearfield, and, therefore, is exempt from the filing requirements of the Insurance Holding Companies Act.
13. The Commissioner concludes that the Clearfield Application satisfies the requirements of the Conversion Act and the Insurance Holding Companies Act.
14. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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Conversion	:	<u>amended</u> , added 1995, Dec. 21, P.L. 714,
	:	40 P.S. §§911-A <u>et seq.</u> ; Sections 1401,
	:	1402, and 1403 of the Insurance Holding
	:	Companies Act, Article XIV of the
	:	Insurance Company Law of 1921, Act of
	:	May 17, 1921, P.L. 682, <u>as amended</u> , 40
	:	P.S. §§991.1401-1403.
	:	:
	:	Order No. ID-RC-17-09

ORDER

Upon consideration of the foregoing, Teresa D. Miller, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Order:

The Application of Clearfield County Grange Mutual Fire Insurance Company ("Clearfield") requesting approval of a Mutual-to-Stock Conversion, as specified in the Clearfield Application, is hereby granted, subject to this Order and the following conditions:


1. Clearfield shall submit for the Commissioner's approval any changes to the Plan of Conversion.
2. Clearfield shall, within sixty (60) days of the date of this Order, send a notice to its Eligible Members, in a form acceptable the Insurance Department, advising them of the policyholder meeting to vote on the Plan of Conversion in the form contained in the Clearfield Application.
3. Clearfield shall effectuate the Conversion as contemplated in the Clearfield Application no later than 120 days following the date of this Order.

4. Clearfield shall provide a copy of all final executed documents relative to the Conversion to the Commissioner within five (5) days of the effective date of the Conversion.
5. Clearfield shall, within sixty (60) days of the effective date of conversion, send a notice to its producers, in a form acceptable to the Insurance Department, giving notice of the Conversion.
6. For the three years following the effective date of conversion, Clearfield shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions without the prior approval of the Department.
7. For the three years following the effective date of conversion, an intermediate stock holding company formed to directly hold the stock of Clearfield ("SHC") shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions without the prior approval of the Department.
8. Community Holdings Management Inc. ("MHC") shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to its members without the prior approval of the Department.
9. SHC shall not conduct any initial public offering of its stock without the prior approval of the Department.
10. SHC shall not create or issue preferred stock prior to or as a part of an initial public offering of its common stock without the prior approval of the Department.
11. MHC shall be prohibited from waiving any dividend by SHC.
12. SHC and MHC shall each provide audited financial statements on an annual basis to the Department.
13. MHC shall not convert from the mutual to stock form in any manner without the prior approval of the Department.
14. MHC shall not merge with any person without the prior approval of the Department.
15. MHC shall provide any contemplated changes to its Articles of Incorporation or By-Laws to the Department for review and approval.
16. Except for those rights related to insurance coverages, the members of MHC shall be entitled to the same rights as the members of a mutual insurance company.

17. MHC shall always maintain at least a majority (50.1%) of the voting stock of SHC or of Clearfield, in the absence of SHC, unless the Department approves otherwise.
18. SHC shall always maintain at least a majority (50.1%) of the voting stock of Clearfield, unless the Department approves otherwise.
19. MHC shall cause all future subsidiary stock holding companies to be incorporated in the Commonwealth of Pennsylvania and to remain as domestic corporations, unless the Department approves otherwise.
20. MHC and SHC shall be subject to the Insurance Holding Companies Act, 40 P.S. §991.1401 et. seq.
21. MHC, SHC or Clearfield shall not implement any plans involving the issuance of stock, warrants or rights thereto, including, but not limited to, management recognition programs, employee stock ownership plans, officer and director stock ownership plans, prior to or as part of an initial public offering without the prior approval of the Department.
22. MHC or its subsidiaries or affiliates shall not lend to any person funds to finance the purchase of any portion of a stock offering, unless the Department approves otherwise.
23. At any time that the Board of Directors of MHC determines that MHC has an accumulation of earnings in excess of the funds that may be needed to pay the obligations of MHC, MHC shall:
 - a. contribute any and all such funds directly to the surplus of Clearfield to be used for the benefit of Clearfield and its policyholders in a manner determined by the Board of Directors of Clearfield; or
 - b. contribute any and all such funds to SHC which shall contribute any and all such funds to the surplus of Clearfield to be used for the benefit of Clearfield and its policyholders in a manner determined by the Board of Directors of Clearfield; or
 - c. with the prior approval of the Department, declare and pay a dividend to the members of MHC.
24. Clearfield shall not be placed into run-off without the prior approval of the Department.
25. The request from Clearfield to change its name subsequent to its conversion from the mutual to stock form to "Clearfield County Insurance Company" is hereby approved.

26. The amended and restated Articles of Incorporation of Clearfield County Insurance Company, in the final form submitted with the Clearfield Application, are hereby approved.

This Order is effective immediately.

A handwritten signature in dark ink, appearing to read "Teresa D. Miller", is written over a horizontal line.

Teresa D. Miller
Insurance Commissioner
Commonwealth of Pennsylvania