

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of CMS Financial Services : Companies Act, Article XIV of the
Corp. in Support of the Request for : Insurance Company Law of 1921,
Approval to Acquire Control of United : Act of May 17, 1921, P.L. 682,
Security Assurance Company of : as amended, 40 P.S. §§991.1401,
Pennsylvania and Colonial American : 991.1402, and 991.1403
Life Insurance Company :
:
: Order No. ID-RC-07-19

DECISION AND ORDER

AND NOW, on this 28th day of June, 2007, Randolph L. Rohrbaugh, Acting Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company 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 Parties

1. Colonial American Life Insurance Company (“Colonial”) is a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Souderton, Pennsylvania.

2. United Security Assurance Company of Pennsylvania (“United Security” and together with Colonial “Domestic Insurers”) is a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Souderton, Pennsylvania. United Security directly holds 100% of the issued and outstanding voting stock of Colonial.
3. United Security Assurance, Inc. (“USA”) is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Souderton, Pennsylvania. USA directly holds 100% of the issued and outstanding voting stock of United Security.
4. CMS Financial Services Corp. (“CMS Financial”) is a business corporation organized under the laws of the state of Maryland with its principal place of business located in Linthicum, Maryland.
5. McGinn Smith Capital Holdings, Inc. (“McGinn Smith”) is a business corporation organized under the laws of the state of New York with its principal place of business located in Albany, New York. McGinn Smith controls 30.32% of the voting stock of CMS Financial.
6. Timothy M. McGinn (“McGinn”) is an individual with his principal place of business located in Albany, New York. McGinn controls 50% of the voting stock of McGinn Smith.
7. David L. Smith (“Smith”) is an individual with his principal place of business located in Albany, New York. Smith controls 50% of the voting stock of McGinn Smith.
8. Coventry Resources Corp. (“Coventry Resources”) is a business corporation organized under the laws of the state of Maryland with its principal place of business located in Linthicum, Maryland. Coventry Resources controls 24.68% of the voting stock of CMS Financial.
9. Robert B. Haldeman and Gail M. Haldeman (“the Haldemans”) are individuals with their principal place of business located in Linthicum, Maryland. The Haldemans control 62.56% of the voting stock of Coventry Resources.

Acquisition Filing

10. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving the control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
11. On April 17, 2007, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from CMS Financial for approval to acquire control of Domestic Insurers.
12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

13. On May 12, 2007, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by CMS Financial and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty (30) day period, ending June 11, 2007.
14. The Department received no comments regarding the Application during the thirty (30) day comment period.

Description of the Proposed Acquisition

15. As described in the Application, on March 28, 2007, USA signed an Agreement and Plan of Merger (which together with subsequent amendments is referenced herein as the “Agreement”) with an affiliate of Coventry Resources, among others, whereby a merger subsidiary of CMS Financial would merge with and into USA.
16. As described in the Application and in accordance with the Agreement, the current shareholders of USA will exchange their holding in USA for the right to receive the acquisition consideration from CMS Financial.
17. As described in the Application and pursuant to the Agreement, the total consideration for the Acquisition would be approximately \$21.5 million, subject to certain adjustments.

Standards for Review

18. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
19. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

20. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
21. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
22. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
23. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), each of the Domestic Insurers is required to maintain a minimum paid up capital stock of \$1,100,000 to write the classes of insurance for which it is presently licensed.
24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), each of the Domestic Insurers is required to maintain a minimum paid in surplus of \$550,000 to write the classes of insurance for which it is presently licensed.
25. Upon completion of the transaction, each of the Domestic Insurers would have paid up capital in an amount that would satisfy the statutory minimum required of a life insurance company licensed to write the classes of authority currently held by the Domestic Insurers.
26. Upon completion of the transaction, each of the Domestic Insurers would have paid in surplus in an amount that would satisfy the statutory minimum required of a life insurance company licensed to write the

classes of authority currently held by the Domestic Insurers.

Competitive Impact

27. The acquisition of control of Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
28. The acquisition of control of Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of CMS Financial, as stated in the Application, does not exceed the market share levels established in Section 1403.

Financial Condition of Acquiring Persons

29. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring persons.
30. The Department has reviewed the tax returns of McGinn, Smith and the Haldemans.
31. The financial condition of McGinn, Smith and the Haldemans would not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurers.

Plans for the Acquired Insurer

32. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.
33. As provided in the Application, CMS Financial has disclosed that it intends to make no significant changes to the business plans of Domestic Insurers.

Management

34. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the

Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.

35. Biographical affidavits for all directors and executive officers of CMS Financial, as well as McGinn, Smith and the Haldemans were provided as part of the Application and the Department reviewed all affidavits that were submitted.
36. The Department is satisfied that the persons who would control the operations of Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
37. 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. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of the Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and

unreasonable to policyholders of the insurers and not in the public interest;

- e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of Domestic Insurers.
 4. Based upon the Application, The Commissioner has determined that upon closing of the Acquisition the ultimate controlling persons of Domestic Insurers would be McGinn, Smith and the Haldemans.
 5. 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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: Order No. ID-RC-07-19

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The application of CMS Financial Services Corp. (“CMS Financial”) in support of the request for approval to acquire control of United Security Assurance Company of Pennsylvania and Colonial American Life Insurance Company (“Colonial America Life”) is hereby approved, subject to this Order and the following conditions:

1. CMS Financial shall obtain approval for the acquisition of Colonial American Life from the Texas Department of Insurance. A copy of the approval document issued by the Texas Department of Insurance shall be provided to the Commissioner within three business days of receipt by CMS Financial.
2. CMS Financial shall provide a list of the closing documents to the Insurance Department within five days after consummation of the subject transaction. Such documents shall be available for Department review for a period of not less than five years from the date of the closing of this acquisition.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

Randolph L. Rohrbaugh
Acting Insurance Commissioner
Commonwealth of Pennsylvania