

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 205 and 207
	:	of the GAA Amendments Act of
Application of Homestead Insurance	:	1990, Act of December 19, 1990,
Company in Support of the Request for	:	P.L. 834, No. 198, <u>as amended</u> , 15
Approval to Recapitalize	:	P.S. §§21205 and 21207.
	:	
	:	Order No.: ID-RC-06-24

DECISION AND ORDER

AND NOW, on this 3rd day of October, 2006, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania (“Deputy Commissioner”), hereby makes the following Decision and Order:

Pursuant to the 1988 Business Corporation Law and the GAA Amendments Act of 1990, and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Deputy Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Homestead Insurance Company (“Homestead”) is a domestic stock property insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania, and has its principal place of business at Bala Cynwyd, Pennsylvania.

Filing of the Application

2. On September 6, 2006, the Insurance Department of the Commonwealth of Pennsylvania (hereinafter referenced as “Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from Homestead requesting approval of the Amendment.
3. The Application was filed pursuant to and in accordance with Title 15, Pa. C.S., Section 1 et seq., as amended, including the GAA Amendments Act of 1992 which is collectively known as the Business Corporation Law (hereinafter referenced as the “BCL”).

Department Procedures

4. On September 23, 2006, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Homestead and such notice invited interested persons to submit comments to the Department regarding the Application for a seven day period, ending September 30, 2006.
5. The Department received no comments regarding the Application during the seven day comment period.

Description of the Proposed Transaction

6. On August 17, 2006, the Board of Directors and the sole shareholder of Homestead approved an amendment to the Articles of Incorporation (herein afterwards referenced as the "Amendment") that would reduce the par value of the common stock of Homestead.
7. As described in the Application, Homestead's Articles of Incorporation currently authorize 8,000,000 shares of common stock, with a par value of \$1.00.
8. As described in the Application, Homestead has 4,061,035 shares of issued and outstanding common stock for a total paid-in capital of \$4,061,035.
9. As described in the Application, the Amendment would reduce the par value of common stock from \$1.00 to \$0.40 per share.
10. The reduction in the amount of capital stock would be immediately recorded as paid-in surplus on the books of account of the Homestead.
11. As described in the Application, the number of issued and outstanding common stock would remain the same after implementation of the Amendment.
12. As described in the Application, upon implementation of the Amendment the stated capital of Homestead would be reduced from \$4,061,035 to \$1,624,414.
13. As described in the Application, upon implementation of the Amendment the contributed surplus of Homestead would be increased from \$36,679,041 to \$39,115,662.
14. As described in the Application, no cash would be removed from Homestead as a result of the recapitalization.

Standards for Review

15. In accordance with Section 21204(a) of the BCL, any amendment to the Articles of Incorporation of a domestic insurer that may be effected only by action or with the approval of the shareholders shall become effective only if approved by the Department.

16. In accordance with Section 21204(c) of the BCL, the capital stock of an insurance corporation may not be reduced below the minimum amount of capital stock required by law for the formation of the corporation.
17. In accordance with Section 21205(b) of the BCL, a reduction in capital stock shall be approved if it is in accordance with law and consistent with the interests of the policyholders and creditors.
18. 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).
19. 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).
20. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Homestead is required to maintain a minimum paid up capital stock of \$1,600,000 to write the classes of insurance for which it is presently licensed.
21. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Homestead is required to maintain a minimum paid in surplus of \$800,000 to write the classes of insurance for which it is presently licensed.
22. Upon completion of the transaction, Homestead will have paid up capital in an amount that will satisfy the statutory minimum required of a stock casualty insurance company licensed to write the classes of authority currently held by Homestead.
23. Upon completion of the transaction, Homestead will have paid in surplus in an amount that will satisfy the statutory minimum required of a stock casualty insurance company licensed to write the classes of authority currently held by Homestead.
24. 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. In accordance with Section 21205(g) of the BCL, the Application is consistent with the definition of a recapitalization.
2. The Application was properly filed pursuant to and in accordance with the BCL.
3. The Department has jurisdiction over the parties and subject matter of this proceeding.
4. In accordance with Section 21204(c) of the BCL, the Deputy Commissioner, based on the Application, has concluded that the recapitalization will not reduce the capital stock of Homestead below the minimum amount of capital stock required by law for the formation of the corporation.
5. In accordance with Section 21205(b) of the BCL, the Deputy Commissioner, based on the Application, has concluded that the recapitalization is in accordance with law and is not injurious to the interests of the policyholders and creditors of Homestead.
6. 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

Upon consideration of the foregoing, the Deputy Commissioner hereby makes the following Order:

An approving determination for the recapitalization of Homestead Insurance Company (“Homestead”), as set forth in the Application, is hereby granted, subject to this order and:

1. The recapitalization may be recorded as effective for accounting purposes as of September 30, 2006;
2. Homestead shall provide a copy of the Articles of Amendment filed with the Pennsylvania Department of State within 5 days of their receipt from the Corporation’s Bureau.

This Order is effective immediately, and valid for one year provided there are no material changes to the Application.

STEPHEN J. JOHNSON
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation