

BEFORE THE INSURANCE DEPARTMENT  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402 and 1403 of  
Application of The Mutual Fire, Marine and : the Insurance Holding Company Law of  
Inland Insurance Company in Support of its : 1921, Act of May 17, 1921, P.L. 682, as  
Request to Acquire Control of : amended, 40 P.S. §§991.1401, 991.1402 and  
Elizabethtown Insurance Company, : 991.1403  
Formerly known as Farmers Mutual :  
Insurance Company :  
:  
:  
: Order No. ID-RC-09-14

**DECISION AND ORDER**

AND NOW, on this 29th day of June, 2009, Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to 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 Parties

1. Farmers Mutual Insurance Company is a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Elizabethtown, Pennsylvania. Upon conversion from a mutual to stock insurance company, Farmers Mutual Insurance Company will be renamed Elizabethtown Insurance Company (“Elizabethtown”).
2. FHA Holding Company (“FHA Holding”) is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Exton, Pennsylvania.

3. The Mutual Fire, Marine and Inland Insurance Company (“Mutual Fire”) is a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Exton, Pennsylvania. Mutual Fire directly holds 100% of the issued and outstanding capital stock of FHA Holdings.
4. No person controls Mutual Fire.

#### Acquisition Filing

5. On May 19, 2009, Elizabethtown and FHA Holdings executed a Conversion and Exchange Agreement (“Agreement”) under which FHA Holding agreed to purchase 100% of the issued and outstanding common stock of Elizabethtown.
6. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
7. On May 21, 2009, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from Mutual Fire for approval to acquire all of the issued and outstanding common stock of Elizabethtown in exchange for a purchase price of \$3,000,000.
8. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
9. As described in the Application, Mutual Fire would acquire all of the issued and outstanding common stock of Elizabethtown in exchange for cash and/or marketable securities.
10. The instant Application requests approval for the change in control of Elizabethtown which would result from the effectuation of the Agreement.
11. Pursuant to The Insurance Company Mutual-to-Stock Conversion Act, 40 P.S. §§911-A et seq., as amended (the “Conversion Act”), Elizabethtown has made separate application with the Commissioner for approval to convert to a stock insurance corporation.

### Standards for Review

12. 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.
13. 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

14. 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.
15. The lines 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).
16. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
17. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Elizabethtown is required to maintain a minimum paid up capital stock of \$950,000 to write the lines of insurance for which it is presently licensed.
18. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Elizabethtown is required to maintain a minimum paid in surplus of \$475,000 to write the lines of insurance for which it is presently licensed.
19. Upon completion of the transaction, Elizabethtown will have paid up capital in an amount that will satisfy the statutory minimum required of a property or casualty insurance company licensed to write the lines of authority currently held by Elizabethtown.
20. Upon completion of the transaction, Elizabethtown will have paid in surplus in an amount that will satisfy the statutory minimum required of a property or casualty insurance company licensed to write the lines of authority currently held by Elizabethtown.

### Competitive Impact

21. The acquisition of control of Elizabethtown 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.
22. The acquisition of control of the Elizabethtown will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of Mutual Fire, as stated in the Application, does not exceed the market share levels established in Section 1403.

### Financial Condition of Applicants

23. 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.
24. As of December 31, 2008, Mutual Fire reported:  
  
Assets of \$127,278,096  
Liabilities of \$7,550,141  
Policyholder Surplus of \$119,727,955
25. The financial condition of Mutual Fire would not pose any impediments to the change in control nor jeopardize the financial condition of Elizabethtown.

### Plans for the Acquired Insurer

26. 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.
27. As provided in the Application, Mutual Fire has no future plans or proposals to liquidate Elizabethtown<sup>1</sup>, to sell its assets to or merge it with any person or persons.
28. Mutual Fire would seek to grow Elizabethtown's core business and would evaluate the skills and experience of Elizabethtown's current staff for prospects of continued employment.

### Management

29. 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.
30. Biographical affidavits for all directors and executive officers of Mutual Fire were available as part of the Application and the Department reviewed all affidavits that were available.
31. The Department is satisfied that the persons who would control the operations of Elizabethtown have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
32. 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 Department has jurisdiction to review and approve the change in control of Elizabethtown.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department 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 they are 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; or,
  - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
  - 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 Elizabethtown.
4. 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 Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The acquisition of control by The Mutual Fire, Marine and Inland Insurance Company (“Mutual Fire”) of Elizabethtown Insurance Company as set forth in the Application, is hereby approved, subject to this Order and the following condition:

1. Mutual Fire shall make a copy of the closing documents available to the Pennsylvania Insurance Department within five (5) days of consummation of the subject transaction.

This Order is effective immediately.

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Joel Ario  
Insurance Commissioner  
Commonwealth of Pennsylvania