

Examination Warrant Number 15-00000-10250-R1

**Report of Examination of**  
**The Green Tree Perpetual Assurance Company**  
**Philadelphia, PA**

**As of December 31, 2015**

For Informational Purposes Only

# The Green Tree Perpetual Assurance Company

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Harrisburg, Pennsylvania  
September 21, 2016

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 15-00000-10250-R1 dated March 2, 2015, an examination was made of

**The Green Tree Perpetual Assurance Company NAIC Code: 10250**

a Pennsylvania domiciled single-state property and casualty insurer, hereinafter referred to as "Company" or "Green Tree". The Company's administrative office is located at 111 South Independence Mall East, Suite 825, Philadelphia, PA 19106. The examination was conducted at the Norristown State office building, located at 1001 Sterigere Street, Norristown, PA 19401.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.



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This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the Company was exempt from the requirement for an audit by a certified public accounting firm.

### HISTORY

The Mutual Assurance Company ("MAC") was founded in 1784 in Philadelphia, PA. It was organized by a group of dissident policyholders who refused to submit to a ban against front yard trees imposed by The Philadelphia Contributionship, the nation's oldest property casualty insurance company founded by Benjamin Franklin in 1752. The MAC founders designed its fire mark, an identifying emblem that was in common use at the time, as a lead tree painted green and affixed to a wooden shield. As a result, MAC became known by its nickname, The Green Tree. MAC developed their perpetual insurance product in 1801.

The National Grange Mutual Insurance Company ("NGM") was incorporated on March 28, 1923, and commenced business on July 16, 1923. In January of 1996, the Board of Trustees of the Mutual Assurance Company agreed to merge MAC into the NGM.

The Company was formed to acquire the NGM's book of perpetual insurance deposits that they received from the purchase and merger of MAC. Perpetual insurance offers permanent insurance coverage in exchange for a single, up front, fully refundable deposit.

The Company was incorporated on August 10, 1999, and licensed by the Department on June 3, 2000. Licenses were granted for the Property and Allied Lines, Inland Marine and Physical Damage, Personal Property Floater and Liability and Burglary & Theft lines of business. Business officially commenced on November 1, 2000.

By mid-2004, the Company determined that it was unable to produce a return on its investments sufficient to fund operations. This was attributed to an unfavorable economic climate during the preceding three years.

On December 10, 2004, with Department approval, the Company sent a letter to its policyholders announcing that all the Company's policies would terminate on February 7, 2005. By that date, all deposits were refunded as promised and the Company now has no active book of business and has no direct or assumed premium.

On June 3, 2005, the Company voluntarily withdrew its licenses for all but one line of business. The Company is currently authorized to transact Property and Allied Lines as described in 40 P.S. § 382(b)(1).

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## MANAGEMENT AND CONTROL

### CAPITALIZATION

As of the examination date, December 31, 2015, the Company's total capital was \$195,594 consisting of common stock and surplus. The common stock is composed of 150,000 capital shares of issued and outstanding common stock with a par value of \$1.00 per share amounting to \$150,000. Surplus consists of \$2,550,800 of gross paid in and contributed surplus and \$(2,505,206) in unassigned funds (surplus).

The Company's minimum capital and minimum surplus requirements for the type of business for which it is licensed, pursuant to 40 P.S. § 386, is \$100,000 in capital and \$50,000 in surplus. The Company has met the minimum capital and surplus requirements throughout the examination period.

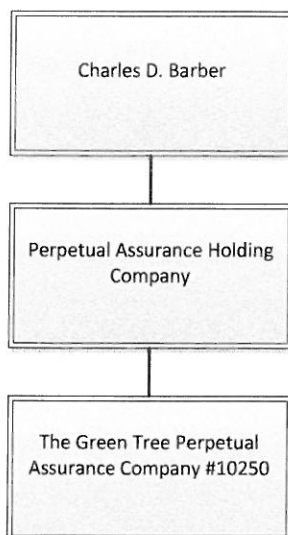
### STOCKHOLDER

All outstanding shares are owned by the Perpetual Assurance Holding Company, which in turn is wholly owned by Charles D. Barber, the Company's Chairman, President and CEO. No dividends were declared or paid during the examination period.

### INSURANCE HOLDING COMPANY SYSTEM

During the period under examination, the Company met the requirements for filing an insurance holding company system annual registration statement, in compliance with 40 P.S. § 991.1404. For each of the years under examination, the Company filed the statement with the Department by March 31.

Members of the holding company system include the following entities briefly described below:



## The Green Tree Perpetual Assurance Company

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Charles D. Barber is named as the ultimate controlling person in the system. Mr. Barber is the sole shareholder of Perpetual Assurance Holding Company, which wholly owns The Green Tree Perpetual Assurance Company. Mr. Barber is Chairman and CEO of both companies. The holding company has no other affiliations.

### BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2015:

Name and Address	Principal Occupation
Charles D. Barber Villanova, PA	President & CEO Green Tree Perpetual Assurance Company
Peter W. Barber Eagleville, PA	Medical Sales Representative Spinal Concepts Inc.
Judith A. Breeding Deptford, NJ	Vice President & Treasurer Green Tree Perpetual Assurance Company
Birchard T. Clothier, Esq. Wynnewood, PA	Secretary Green Tree Perpetual Assurance Company
James J. Lennon, Jr. Chester Springs, PA	Retired
Dana H. Stewardson Bryn Mawr, PA	Investment Manager Logan Capital Management, Inc.
Harry J. Walsh Huntington Valley, PA	Retired

As required by the Company's by-laws, all directors are elected for one-year terms at the annual meeting of the Company's stockholder. The Company requires all officers and directors to sign an annual conflict of interest statement.

### COMMITTEES

As of the examination date, December 31, 2015, the following committees were appointed by the Board and serving in accordance with the Company's by-laws:

#### Governance Committee

James J. Lennon, Jr. (Chair)  
Dana H. Stewardson  
Harry J. Walsh

#### Investment Committee

Birchard T. Clothier, Esq. (Chair)  
Charles D. Barber  
Peter W. Barber  
James J. Lennon  
Dana H. Stewardson



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## **OFFICERS**

As of the examination date, December 31, 2015, the following officers were appointed and serving in accordance with the Company's by-laws:

<b>Name</b>	<b>Title</b>
Charles D. Barber	President & CEO
Judith A. Breeding	Vice President & Treasurer
Brichard T. Clothier, Esq.	Secretary

## **CORPORATE RECORDS**

### **MINUTES**

A compliance review of the Company's Board minutes revealed the following:

- The annual stockholders meeting was held in compliance with the Company's by-laws.
- The Company's directors were elected at the annual stockholders meeting in compliance with the Company's by-laws.
- The Company's shareholder ratified the prior year's actions of the officers and Board.
- Quorums were present at all Board meetings.
- The Board approves the Company's investment transactions annually.
- All directors attend Board meetings regularly.

### **ARTICLES OF INCORPORATION**

There were no changes made to the Company's Articles of Incorporation during the examination period.

### **BY-LAWS**

There were no changes made to the Company's by-laws during the examination period.

## **SERVICE AND OPERATING AGREEMENTS**

The Company is a party to several service and operating agreements as described below.

### **Lease with Bourse Tower Associates, LP**

The Company is a party to a lease agreement with Bourse Towers Associates, LP. In this lease dated May 7, 2014, the Company rents 616 square feet of office space on the 8<sup>th</sup> floor of the Bourse building located at 111 South Independence Mall East, Philadelphia, PA. The lease

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runs from May 7, 2014 to May 31, 2017. The first year's monthly rent is \$1,026.67, second year's monthly rent is \$1,052.33, and the third and final year's monthly rent is \$1,078.00

### Lease with Bourse Mall Associates, LP

The Company is a party to a lease agreement with Bourse Mall Associates, LP. In this lease dated May 21, 2014, the Company rents 78 square feet of storage space in the Concourse Level of the Bourse building located at 111 South Independence Mall East, Philadelphia, PA. The space is for file storage only and costs \$80 per month. The lease is on a month to month basis and commenced on June 1, 2014. Either party may terminate the agreement with 10 days advance notice.

### Administrative Services Agreement with Reinsurance Solutions LLC

The Company is a party to an administrative services agreement with R&Q Reinsurance Solutions LLC, ("R&Q") initially signed on March 18, 2003. R&Q agreed to provide accounting services and prepare all monthly, quarterly, and annual financial statements in accordance with Generally Accepted Accounting Principles and Statutory Accounting Principles. The most recent renewal of the contract set annual fees at \$20,000 per year and extended the contract for a period commencing from January 1, 2014 through December 31, 2017. Either party can terminate the agreement with 180 days notice to the other party.

## REINSURANCE

The Company did not assume or cede any business.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the Commonwealth of Pennsylvania and had no written premium during the period under examination.

## SIGNIFICANT OPERATING TRENDS

The Company reported the following net underwriting, investment and other gains or losses during the period under examination:

	2015	2014	2013	2012	2011
Admitted assets	\$ 200,836	\$ 195,758	\$ 239,160	\$ 274,956	\$ 280,854
Liabilities	\$ 5,242	\$ 17,266	\$ 26,247	\$ 34,115	\$ 40,475
Surplus as regards policyholders	\$ 195,594	\$ 178,492	\$ 212,913	\$ 240,841	\$ 240,379
Underwriting gain/(loss)	\$ (25,785)	\$ (47,270)	\$ (50,996)	\$ (44,037)	\$ (77,101)
Investment gain/(loss)	\$ (8,354)	\$ (18,566)	\$ 8,411	\$ 81,306	\$ (26,157)
Net income	\$ (34,139)	\$ (65,837)	\$ (42,585)	\$ 37,269	\$ (103,259)

The Company's Net Income shows an overall negative trend. The Company's expenditures to cover the operations of the Company are overshadowing the return on invested assets resulting in losses in four of the last five years.



### **PENDING LITIGATION**

The Company is not currently involved in any lawsuits whose outcome could have a material effect on its financial condition.

### **FINANCIAL STATEMENTS**

The financial condition of the Company as of December 31, 2015, and the results of its operations for the five-year period under examination, is reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;  
Comparative Statement of Income;  
Comparative Statement of Capital and Surplus; and  
Comparative Statement of Cash Flow

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## Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2015	2014	2013	2012	2011
Preferred stocks	\$ 13,872	\$ 23,211	\$ 21,700	\$ 44,850	\$ 79,174
Common stocks	156,701	158,884	151,427	194,455	181,529
Cash, cash equivalents, and short term investments	26,041	3,878	62,601	32,108	18,098
Subtotals, cash and invested assets	196,614	185,972	235,728	271,413	278,801
Electronic data processing equipment and software	320	1,500	3,432	3,543	2,053
Aggregate write-ins for other than invested assets	3,902	8,286	0	0	0
Total	\$ 200,836	\$ 195,758	\$ 239,160	\$ 274,956	\$ 280,854
Losses	\$ 0	\$ 0	\$ 10,000	\$ 10,000	\$ 10,000
Loss adjustment expenses	0	0	5,000	5,000	5,000
Other expenses	5,218	17,266	11,247	19,115	25,314
Taxes, licenses and fees	24	0	0	0	161
Total liabilities	5,242	17,266	26,247	34,115	40,475
Common capital stock	150,000	150,000	150,000	150,000	150,000
Gross paid in and contributed surplus	2,550,800	2,550,800	2,550,800	2,550,800	2,550,800
Unassigned funds (surplus)	(2,505,206)	(2,522,308)	(2,487,887)	(2,459,959)	(2,460,421)
Surplus as regards policyholders	195,594	178,492	212,913	240,841	240,379
Totals	\$ 200,836	\$ 195,758	\$ 239,160	\$ 274,956	\$ 280,854

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## Comparative Statement of Income For the Year Ended December 31,

Underwriting Income	2015	2014	2013	2012	2011
Deductions:					
Losses incurred	0	(10,000)	0	0	0
Loss expenses incurred	0	(5,000)	0	0	0
Other underwriting expenses incurred	25,785	62,270	50,996	44,037	77,101
Total underwriting deductions	25,785	47,270	50,996	44,037	77,101
Net underwriting gain or (loss)	(25,785)	(47,270)	(50,996)	(44,037)	(77,101)
Investment Income					
Net investment income earned	(17,086)	(19,968)	(15,118)	(11,513)	(14,214)
Net realized capital gains or (losses)	8,732	1,402	23,529	92,819	(11,943)
Net investment gain or (loss)	(8,354)	(18,566)	8,411	81,306	(26,157)
Net income before dividends to policyholders and before federal and foreign income taxes	(34,139)	(65,837)	(42,585)	37,269	(103,259)
Net income	\$ (34,139)	\$ (65,837)	\$ (42,585)	\$ 37,269	\$ (103,259)

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## Comparative Statement of Capital and Surplus For the Year Ended December 31,

	2015	2014	2013	2012	2011
Surplus as regards policyholders,					
December 31, previous year	\$ 178,492	\$ 212,913	\$ 240,841	\$ 240,379	\$ 331,945
Net income	(34,139)	(65,837)	(42,585)	37,269	(103,259)
Net unrealized capital gains or (losses)	(1,555)	37,880	13,049	(32,677)	11,693
Change in nonadmitted assets	52,798	(6,465)	1,608	(4,130)	0
Aggregate write-ins for gains and losses in surplus	(2)	1	0	0	0
Change in surplus as regards policyholder for the year	17,102	(34,421)	(27,928)	462	(91,566)
Surplus as regards policyholders,					
December 31, current year	\$ 195,594	\$ 178,492	\$ 212,913	\$ 240,841	\$ 240,379

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# The Green Tree Perpetual Assurance Company

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## Comparative Statement of Cash Flow For the Year Ended December 31,

	2015	2014	2013	2012	2011
<b>Cash from Operations</b>					
Net investment income	\$ (17,086)	\$ (19,968)	\$ (15,118)	\$ (11,513)	\$ (14,214)
Total income	(17,086)	(19,968)	(15,118)	(11,513)	(14,214)
Commissions, expenses paid and aggregate write-ins for deductions	37,809	56,251	58,864	50,397	81,097
Total deductions	37,809	56,251	58,864	50,397	81,097
Net cash from operations	(54,895)	(76,220)	(73,982)	(61,910)	(95,312)
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	0	0	0	15,386	0
Stocks	43,319	55,225	112,745	277,872	105,364
Miscellaneous proceeds	50,000	0	27,000	0	0
Total investment proceeds	93,319	55,225	139,745	293,258	105,364
Cost of investments acquired (long-term only):					
Bonds	0	0	0	15,006	0
Stocks	24,621	24,911	36,989	196,712	105,323
Total investments acquired	24,621	24,911	36,989	211,718	105,323
Net cash from investments	68,698	30,314	102,756	81,540	41
<b>Cash from Financing and Miscellaneous Services</b>					
Other cash provided or (applied)	8,360	(12,817)	1,719	(5,620)	(32,791)
Net cash from financing and miscellaneous sources	8,360	(12,817)	1,719	(5,620)	(32,791)
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	22,163	(58,723)	30,493	14,010	(128,062)
Cash and short-term investments:					
Beginning of the year	3,879	62,602	32,109	18,099	146,161
End of the year	\$ 26,042	\$ 3,879	\$ 62,602	\$ 32,109	\$ 18,099

## SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

## NOTES TO FINANCIAL STATEMENTS

### ASSETS

### INVESTMENTS

As of December 31, 2015, the Company's invested assets were distributed as follows:

	Amount	Percentage
Preferred stocks	13,872	7.1 %
Common stocks	156,701	79.7 %
Cash	3,584	1.8 %
Short-term investments	22,457	11.4 %
Totals	<u>\$ 196,614</u>	<u>100.0 %</u>

The Company's short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 22,457	100.0 %
Totals	<u>\$ 22,457</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 22,457	100.0 %
Totals	<u>\$ 22,457</u>	<u>100.0 %</u>

The Company's investment mix consists of preferred and common stock of investment grade companies and a money market fund for their short-term investments. In addition, the Company has an art collection that is treated as a non-admitted asset under Statutory Accounting Principles. The art collection consists of fire-related memorabilia, silver, and vintage furniture. The current value of the non-admitted assets is estimated to be worth about \$420,000. The collection is significant to the Company because historical items have been sold to boost liquid assets and enhance surplus.

The Company has a written investment policy as required by 40 P.S. §653b(b). The investment policy is reviewed and approved on a quarterly basis by the Company's Investment Committee. All investment transactions are reviewed and approved by the Board of Directors. The Company was following its investment policy as of December 31, 2015.

The examiner reviewed the custodial agreement with Boenning and Scattergood, Inc., and found that it complies with the requirements with 31 Pa. Code § 148a.3.



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## LIABILITIES

The Company recorded \$0 in loss reserves and \$0 in loss adjustment expense reserves on the December 31, 2015 Annual Statement.

The Company does not write any premiums, there are no policies outstanding and no open claims since about 2005. Although Company management held a minimal amount of IBNR loss and loss adjustment expense reserves for a number of years after all claims closed, those IBNR reserves were reduced to \$0 during the examination period. The Company's only liabilities as of December 31, 2015 were for general and administrative overhead expenses.

The Company has been exempted from filing a Statement of Actuarial Opinion for each year in the examination period.

## SUBSEQUENT EVENTS

The examiner noted no subsequent events that were material to the operations of the Company.

## RECOMMENDATIONS

### PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity in order to comply with 40 P.S. § 991.1405(c)(4), (4.1) and (5). Due to the Company's exemption from the annual CPA audit requirement and the lack of any policyholders, the committee or committees' responsibilities need only address reviewing the insurer's financial condition, nominating committees for director for election by shareholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensate of the principal officers.

**The Company has complied with this recommendation.**

2. It is recommended that the Company properly report its short-term investments within future annual statement filings in compliance with the NAIC Annual Statement Instructions.

**The Company has complied with this recommendation.**

### CURRENT EXAMINATION

As a result of the current examination, no recommendations are being made.

# The Green Tree Perpetual Assurance Company

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## CONCLUSION

As a result of this examination, the financial condition of The Green Tree Perpetual Assurance Company as of December 31, 2015, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 200,836	100.0 %
Liabilities	\$ 5,242	2.6 %
Surplus as regards policyholders	195,594	97.4 %
Total liabilities and surplus	\$ 200,836	100.0 %

Since the previous examination, made as of December 31, 2010, the Company's assets decreased by \$209,205, its liabilities decreased by \$72,854 and its surplus decreased by \$136,351.

This examination was conducted by Glenn LeGault, CPA, CFE.

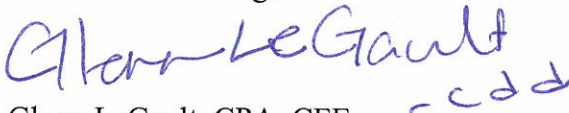
Respectfully,



Melissa L. Greiner  
Director, Bureau of Financial Examinations



Kelly A. Monaghan, CPA, CFE, CGFM, CFE  
Examination Manager



Glenn LeGault, CPA, CFE  
Examiner-in-Charge

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