



GOVERNOR'S OFFICE OF GENERAL COUNSEL

August 21, 2008

Michael F. Krimmel, Chief Clerk
Commonwealth Court
628 South Office Building
Harrisburg, PA 17120-0001

*Re: Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania v. Villanova Insurance Company,
No. 182 M.D. 2002*

Dear Mr. Krimmel:

Enclosed for filing, please find an original and two (2) copies of the Liquidator's Third Proposal to Distribute Assets to State Insurance Guaranty Funds.

As directed by the Court's Order, we are also enclosing copies of the documents on a computer disk.

Thank you for your attention to this matter.

Very truly yours,

Amy L. Weber
Special Funds Counsel

ALW:jlh
Encs.



IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO, :
INSURANCE COMMISSIONER :
OF THE COMMONWEALTH OF :
PENNSYLVANIA, :
 :
Plaintiff, :
 : No. 182 M.D. 2002
v. :
 :
VILLANOVA INSURANCE COMPANY, :
 :
Defendant. :

Re: Liquidator's Third Proposal to Distribute Assets to State Guaranty Associations Pursuant to 40 P.S. §221.36

ORDER

AND NOW, this ____ day of September, 2008, upon consideration of the Statutory Liquidator's Petition to Approve the Third Proposal to Distribute Assets to State Insurance Guaranty Associations pursuant to Section 536 of The Insurance Department Act of 1921, Act of May 17, 1921, P.L. 789, added by the Act of December 14, 1977, P.L. 280, 40 P.S. §221.36, and the record in support thereof, it is hereby ORDERED as follows:

1. The Liquidator's Proposal is approved, and the Statutory Liquidator is hereby authorized to make an early distribution of \$14.7 million to the various guaranty associations in accordance with terms of the Liquidator's Proposal, as partial payment of claims for administrative expenses, loss adjustment expenses and claims payments

incurred by the guaranty associations as a result of the liquidation of Villanova Insurance Company (In Liquidation).

2. The Statutory Liquidator shall make no other early access distributions without further written approval of the Court.

MARY HANNAH LEAVITT, Judge

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO, :
INSURANCE COMMISSIONER :
OF THE COMMONWEALTH :
OF PENNSYLVANIA, :
 :
Plaintiff, :
 : No. 182 M.D. 2002
v. :
 :
VILLANOVA INSURANCE COMPANY, :
 :
Defendant. :
 :

**LIQUIDATOR'S THIRD PROPOSAL TO DISTRIBUTE ASSETS
TO STATE INSURANCE GUARANTY ASSOCIATIONS
PURSUANT TO 40 P.S. §221.36**

Petitioner, Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") in his official capacity as statutory liquidator ("Liquidator") of Legion Insurance Company ("Legion") and Villanova Insurance Company ("Villanova"), hereby petitions the Court for approval of the Liquidator's third proposal to distribute a portion of the Legion liquidation estate's assets and the Villanova liquidation estate's assets to state guaranty associations (collectively, "SGAs") pursuant to 40 P.S. § 221.36. In support of this Petition, the Liquidator respectfully represents the following:

BACKGROUND

1. On March 28, 2002, the Commonwealth Court of Pennsylvania placed Legion and Villanova into rehabilitation and appointed the Commissioner to serve as the Rehabilitator of each company effective April 1, 2002.

2. On July 25, 2003, the Court found that Legion and Villanova were insolvent and appointed the Commissioner to serve as Liquidator of Legion and as Liquidator of Villanova effective July 28, 2003 (the "Liquidation Orders").

3. The Department Act § 221.36(a) provides in part that,

. . . the liquidator shall make application to the Commonwealth Court for approval of a proposal to disburse assets out of such company's marshaled assets, from time to time as such assets become available, to any guaranty association in the Commonwealth or in any other state having substantially the same provision of law.

See 40 P.S. § 221.36(a).

4. The statute further provides that the proposal shall include (a) reserving amounts for the payment of administrative expenses and secured claims; (b) disbursement of assets marshaled to date and the prospect of future disbursements as assets become available; (c) equitable allocation of disbursements to each of the associations entitled thereto; (d) the securing by the Liquidator of an agreement from each SGA to return assets under certain circumstances to ensure *pro rata* distributions amongst members of the same class of creditors; and, (e) provides that the Liquidator may require reports to be made by the SGAs covering matters as the Liquidator determines. See 40 P.S. § 221.36(b)(1-5).

5. On November 9, 2005, after consultation with certain representatives of the SGAs, the Liquidator filed a Proposal to Distribute Assets to State Insurance Guaranty Associations and sought to make a first distribution totaling \$150 million from Legion and Villanova to the SGAs based on an equitable allocation formula set forth in the Proposal.

6. After a hearing on the Liquidator's Proposal on February 8, 2006, this Court by Orders dated February 10, 2006 authorized the Liquidator to make a first

distribution to the SGAs totaling \$150 million from Legion and Villanova in accordance with the equitable allocation formula set forth in the Liquidator's Proposal.

7. On June 12, 2007, the Liquidator filed a Second Proposal to Distribute Assets to State Insurance Guaranty Associations and sought to make a second distribution totaling \$192.2 million from Legion and Villanova to the SGAs based on an equitable allocation formula set forth in the Liquidator's initial Proposal. By Orders dated November 30, 2007, this Court authorized the Liquidator to make a second distribution to the SGAs totaling \$192.2 million from Legion and Villanova in accordance with the equitable allocation formula set forth in the Liquidator's initial Proposal.

THIRD PROPOSAL FOR DISTRIBUTION

8. This early access distribution will be the third distribution to the SGAs in the Legion and Villanova liquidations. The purpose of this Proposal is to continue to provide the various SGAs with early access to the available funds of Legion and Villanova as an advance against the SGA's estimated administrative expenses, loss adjustment expenses and claims payments based on the same equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations, which was approved by the Court on February 10, 2006.

9. A current list of the SGAs who have executed the refunding agreements in accordance with the Liquidator's initial Proposal and are eligible to receive a distribution is attached hereto as Exhibit A. The Liquidator proposes to make the third early access distributions described herein to the SGAs listed on Exhibit A that are current signatories to the refunding agreements, and early access distributions will not be made to SGAs that continue to elect not to participate in the refunding agreements.

10. In addition, and as a part of the early access Agreement, all of the SGAs will be required to report to the Liquidator their claim payment activity through June 30, 2008, including reporting the administrative expenses, loss adjustment expenses, and claim payments made and special/statutory deposits used before the Liquidation Orders.

The Liquidator will, based on this information, be able to calculate the amount of the special/statutory deposits remaining, the amounts that the SGAs have paid in policyholders claims, and claims related expenses and have information necessary for reinsurance collection.

11. The Liquidator proposes this third distribution of \$213.1 million and \$14.7 million from the estates to the various SGAs as follows: 50% of the total 2008 distribution to each SGA that has executed the Refunding Agreement provided that the SGA submits its claims report as of December 31, 2007 in a form acceptable to the Liquidator; and the remaining 50% of the total 2008 distribution to each SGA provided the SGA submits its claims report as of June 30, 2008 in a form acceptable to the Liquidator.

12. If the special/statutory deposits held by any state insurance department at the date of liquidation, or those deposits, if any, assigned to the SGAs for the state after the July 28, 2003 effective date of liquidation, exceed the amount to be distributed in the third distribution to the applicable SGA to pay claims and administrative expenses, then the excess funds shall be refunded in accordance with the Liquidator's initial Proposal, which was approved by the Court on February 10, 2006.

PROPOSED DISTRIBUTION FROM THE LEGION ESTATE

13. As of March 31, 2008, the Legion estate had approximately \$758.7 million in liquid assets, and the estate continues to receive cash from reinsurance and other recoveries. From this amount, the Liquidator proposes to set aside a prudent reserved amount of \$526.4 million to cover the items listed in the Department Act § 221.36(b)(1) including anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders. The Liquidator has set aside the reserved amount to ensure the proper and equitable administration of the estate and the protection of claimants. The Liquidator will advise the Court of future changes in the reserved amount at the time he files future proposals for early access distribution.

14. The Legion estate's liquid assets as of March 31, 2008, of approximately \$758.7 million, less the \$526.4 million reserved amount, and less the \$19.2 million withheld from prior early access distributions, now leaves an available amount of approximately \$213.1 million from which to make early access distributions to the SGAs. At any given time, the amount of liquid assets available will fluctuate as the aggregate amount of assets in the estate change and as adjustments are made to the reserved amount.

15. Based on the current amount of liquid assets, the Liquidator proposes to distribute from the Legion estate \$213.1 million in as yet unreimbursed SGA administrative expenses, loss adjustment expenses and claim payments.

PROPOSED DISTRIBUTION FROM THE VILLANOVA ESTATE

16. As of March 31, 2008, the Villanova estate had approximately \$65.7 million in liquid assets, and the estate continues to receive cash from reinsurance and other recoveries. From this amount, the Liquidator proposes to set aside a prudent reserved amount of \$43.9 million to cover the items listed in the Department Act § 221.36(b)(1) including anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders. The Liquidator has set aside the reserved amount to ensure the proper and equitable administration of the estate and the protection of claimants. The Liquidator will advise the Court of future changes in the reserved amount at the time he files future proposals for early access distribution.

17. The Villanova estate's liquid assets as of March 31, 2008, of approximately \$65.7 million, less the \$43.9 million reserved amount, and less the \$7.1 million withheld from prior early access distributions, now leaves an available amount of approximately \$14.7 million from which to make early access distributions to the SGAs. At any given time, the amount of liquid assets available will fluctuate as the aggregate amount of assets in the estate change and as adjustments are made to the reserved amount.

18. Based on the current amount of liquid assets, the Liquidator proposes to distribute from the Villanova estate \$14.7 million in as yet unreimbursed SGA administrative expenses, loss adjustment expenses and claim payments.

19. The purpose of this Proposal is to continue to provide the various SGAs with early access to the available funds of Legion and Villanova as an advance against the SGA's estimated administrative expenses, loss adjustment expenses and claims payments based on the same equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations.

NOTICE

20. Pursuant to 40 P.S. § 221.36 (d), not less than thirty (30) days prior to the filing of the proposal for the distribution to the SGAs associations, the Liquidator sent *via* certified mail, first class postage prepaid, a notice of the proposed distribution of assets to the SGAs. This notice was given on June 27, 2008 to the various SGAs and to the insurance departments of the states in which Legion and Villanova were licensed to do insurance business, setting forth the proposed early access distribution, and the approximate date on which the filing of the petition for distribution is to be made. No objection or other response relating to the distribution has been received.

WHEREFORE, the Liquidator prays that this Proposal be heard and granted, and that this Court issue an Order as follows:

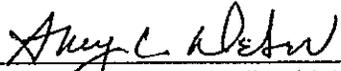
1. Approving the foregoing Third Proposal for early access distributions to the SGAs from the Legion and Villanova estates based on the same equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations;

2. Authorizing the Liquidator to make a third distribution of \$213.1 million from the Legion estate to the SGAs based on the same equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations;

3. Authorizing the Liquidator to make a third distribution of \$14.7 million from the Villanova estate based on the same equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations; and

4. Authorizing the Liquidator to take any and all actions necessary to accomplish the purposes of the Order prayed for herein and to carry out the distributions to the SGAs.

Respectfully submitted,



AMY L. WEBER (I.D. #45447)
Governor's Office of General Counsel
Office of Liquidations, Rehabilitations
and Special Funds
901 North 7th Street
Harrisburg, PA 17102
(717) 787-6009

Counsel for Joel S. Ario, Insurance
Commissioner of the Commonwealth
of Pennsylvania acting in his official
capacity as Statutory Liquidator of
Villanova Insurance Company

DATED: 8/21/08

EXHIBIT A

EXHIBIT A (Villanova)

**GUARANTY ASSOCIATIONS ELIGIBLE
TO PARTICIPATE IN PROPOSED DISTRIBUTION**

Alaska Insurance Guaranty Association
Alabama Insurance Guaranty Association
Arizona Insurance Guaranty Funds
Arkansas Property & Casualty Guaranty Fund
SCF of Arizona
California Insurance Guaranty Association
Delaware Insurance Guaranty Association
Western Guaranty Fund Services – (Colorado, Montana, Idaho, Washington and Wyoming
Insurance Guaranty Associations)
Guaranty Fund Management Services – (Connecticut, District of Columbia, Rhode Island,
Maine, Vermont, Massachusetts and Virginia Insurance Guaranty Associations)
Florida Insurance Guaranty Association
Georgia Insurers Insolvency Pool
Hawaii Insurance Guaranty Association
Iowa Insurance Guaranty Association
Illinois Insurance Guaranty Fund
Indiana Insurance Guaranty Association
Kentucky Insurance Guaranty Association
Louisiana Insurance Guaranty Association
Property & Casualty Insurance Guaranty Corp. - Maryland
Minnesota Insurance Guaranty Association
Missouri Property & Casualty Insurance Guaranty Association
Nebraska Property & Liability Insurance Guaranty Association
Nevada Insurance Guaranty Association
New Jersey Property - Liability Insurance Guaranty Association
New Jersey Workers' Compensation Security Fund
New Mexico Insurance Guaranty Association
New York State Insurance Department
North Carolina Insurance Guaranty Association
North Dakota Insurance Guaranty Association
Ohio/West Virginia Guaranty Funds
Oklahoma P&C Insurance Guaranty Association
Oregon Insurance Guaranty Association
Pennsylvania Property & Casualty Insurance Guaranty Association
Pennsylvania Workers' Compensation Fund
Puerto Rico Property & Casualty Insurance Guaranty Association
South Carolina Property & Casualty Insurance Guaranty Association
South Dakota Property & Casualty Insurance Guaranty Association
Tennessee Insurance Guaranty Association

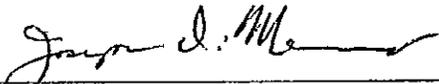
Texas Property & Casualty Insurance Guaranty Association
Wisconsin Insurance Security Funds
Florida Workers Compensation Insurance Guaranty Association
Compensation Rating & Inspection Bureau

Alabama Life & Disability Insurance Guaranty Association
Alaska Life & Health Insurance Guaranty Association
Arizona Life & Disability Insurance Guaranty Fund
Arkansas Life & Health Insurance Guaranty Association
California Life & Health Insurance Guaranty Association
Colorado Life & Health Insurance Protection Association
Connecticut Life & Health Insurance Guaranty Association
Delaware Life & Health Insurance Guaranty Association
District of Columbia Life & Health Insurance Guaranty Association
Florida Life & Health Insurance Guaranty Association
Georgia Life & Health Insurance Guaranty Association
Hawaii Life & Disability Insurance Guaranty Association
Idaho Life & Health Insurance Guaranty Association
Illinois Life & Health Insurance Guaranty Association
Indiana Life & Health Insurance Guaranty Association
Iowa Life & Health Insurance Guaranty Association
Kentucky Life & Health Insurance Guaranty Association
Louisiana Life & Health Insurance Guaranty Association
Maine Life & Health Insurance Guaranty Association
Maryland Life & Health Insurance Guaranty Corporation
Massachusetts Life & Health Insurance Guaranty Association
Minnesota Life & Health Insurance Guaranty Association
Missouri Life & Health Insurance Guaranty Association
Montana Life & Health Insurance Guaranty Association
Nebraska Life & Health Insurance Guaranty Association
Nevada Life & Health Insurance Guaranty Association
New Mexico Life Insurance Guaranty Association
Life Insurance Company Guaranty Corporation of New York
North Dakota Life & Health Insurance Guaranty Association
Ohio Life & Health Insurance Guaranty Association
Oklahoma Life & Health Insurance Guaranty Association
Oregon Life & Health Insurance Guaranty Association
Pennsylvania Life & Health Insurance Guaranty Association
Rhode Island Life & Health Insurance Guaranty Association
South Carolina Life, Accident & Health Insurance Guaranty Association
South Dakota Life & Health Insurance Guaranty Association
Tennessee Life & Health Insurance Guaranty Association
Texas Life Accident Health & Hospital Service Insurance Guaranty Association
Vermont Life & Health Insurance Guaranty Association
Virginia Life Accident & Sickness Insurance Guaranty Association
Washington Life & Disability Insurance Guaranty Association

West Virginia Life & Health Insurance Guaranty Association
Wisconsin Insurance Security Fund
Wyoming Life & Health Insurance Guaranty Association

VERIFICATION

I, Joseph DiMemmo, Deputy Insurance Commissioner, of the Office of Liquidations, Rehabilitations and Special Funds, of the Pennsylvania Insurance Department, am duly authorized to make this Verification for and on behalf of Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as Statutory Liquidator ("Liquidator") of Villanova Insurance Company. I have read the Liquidator's Third Proposal to Distribute Assets to the State Guaranty Funds and verify that the matters stated therein are true and correct to the best of my knowledge, information and belief. I understand that this Verification is made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.



Joseph DiMemmo
Deputy Insurance Commissioner

Dated: August 20, 2008

3. As of March 31, 2008, the Villanova estate had approximately \$65.7 million in liquid assets, and Villanova continues to receive cash from reinsurance and other recoveries.

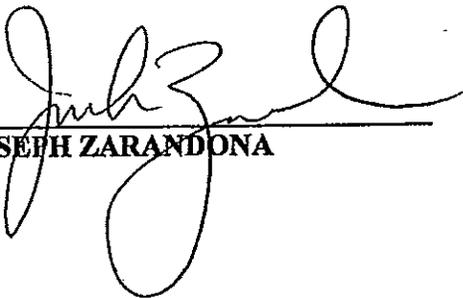
4. The Liquidator proposes to set aside a prudent reserved amount of \$43.9 million to cover the items listed in the Department Act § 221.36(b)(1) including anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders, which will be set aside to ensure the proper and equitable administration of the estate and the protection of claimants.

5. In my opinion as Chief Liquidation Officer of Villanova, based on presently available information, the reserved amount of \$43.9 million is necessary and appropriate to cover anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders and other items included in the Department Act § 221.36(b)(1).

6. Further, the amount of the reserve reflects my opinion, based on presently available information, as to the amount necessary to protect Villanova's interests and obligations in light of current market conditions and external insurance industry factors that may affect Villanova's ability to collect amounts owed.

7. My certification is made in reasonable reliance on the work of qualified staff and the Estates' internal procedures for financial operations.

I verify that the matters stated therein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.



JOSEPH ZARANDONA

Sworn to and subscribed before me
this 5th day of August, 2008.



NOTARY PUBLIC

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Maureen Greenfield, Notary Public
City Of Philadelphia, Philadelphia County
My Commission Expires Dec. 23, 2010
Member, Pennsylvania Association of Notaries

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

Joel S. Ario :
Insurance Commissioner of the :
Commonwealth of Pennsylvania :
 :
Plaintiff, :
 :
v. : Docket No. 182 M.D. 2002
 :
Villanova Insurance Company :
One Logan Square, Suite 1400 :
Philadelphia, PA 19103 :
 :
Defendant. :

**AFFIDAVIT OF JOSEPH DIMEMMO IN SUPPORT OF THE LIQUIDATOR'S
THIRD PROPOSAL TO DISTRIBUTE ASSETS TO STATE INSURANCE
GUARANTY ASSOCIATIONS PURSUANT TO 40 P.S. §221.36**

I, JOSEPH DIMEMMO, hereby depose and state as follows:

1. I am Deputy Insurance Commissioner for the Pennsylvania Insurance Department, Office of Liquidations, Rehabilitations and Special Funds and have general oversight responsibility on behalf of the Department for the direction and policy for Legion and Villanova and for all of the estates in rehabilitation and liquidation in Pennsylvania.
2. I make this certification in support of the Liquidator's Third Proposal to Distribute Assets to State Insurance Guaranty Associations Pursuant to 40 P.S. §221.36, which proposes to continue to provide participating state guaranty associations with early access to the available funds of Legion and Villanova as an advance against their estimated administrative expenses, loss adjustment expenses and claims payments based on the equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations.

3. This early access distribution will be the third distribution to the state guaranty associations in the Legion and Villanova liquidations. The purpose of this proposal is to provide the various participating state guaranty associations with early access to the available funds of Legion and Villanova as an advance in payment of the associations' estimated administrative expenses, loss adjustment expenses and claims payments.

4. Prior to receiving any monies from the Statutory Liquidator of Legion in this Third Proposal to Distribute, participating state guaranty associations are required to have executed the refunding agreement thereby agreeing to reimburse the Liquidator any funds, including interest the association received, in excess of its share of the assets of the liquidated company. The Liquidator requires that for any state guaranty association that did not previously sign the refunding agreement, the refunding agreement must be executed prior to participation in this third early access distribution. Early access distributions will not be made to guaranty associations that have elected not to participate in the refunding agreement.

5. In addition, to be eligible for the early access distribution, the Liquidator requires the guaranty associations to periodically provide the Liquidator information in the standard UDS format regarding the claims that they have paid, administrative expenses and refund of premium information. In addition, states that triggered their guaranty associations prior to the Pennsylvania liquidation were required to provide an accounting of the claims liability as of 12/31/04.

6. Payments made to state guaranty associations for administrative expenses and policyholder claims represent payments made on account and do not indicate Liquidator acceptance of the reported figures. The Liquidator, prior to the discharge of the estate, will make periodic evaluation of the claims of the state guaranty associations.

7. Pursuant to 40 P.S. §221.36 (d), notice of this proposal was given on

June 27, 2008 to the various state guaranty associations, NOLHGA and to the state insurance departments of the states and the territories in which Legion was licensed.

8. No objections have been received from any of the state guaranty associations or state insurance departments or other jurisdictions that received notice of this proposal as referenced in paragraph 7 above.

9. As of March 31, 2008, the Villanova estate had approximately \$65.7 million in liquid assets, and Legion continues to receive cash from reinsurance and other recoveries.

10. The Liquidator proposes to set aside a prudent reserved amount of \$43.9 million to cover the items listed in the Department Act § 221.36(b)(1) including anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders, which will be set aside to ensure the proper and equitable administration of the estate and the protection of claimants.

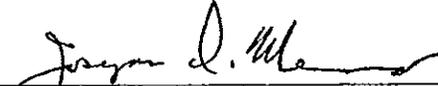
11. In my opinion as Deputy Insurance Commissioner, based on presently available information, the reserved amount of \$43.9 million is necessary and appropriate to cover anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders and other items included in the Department Act § 221.36(b)(1).

12. Further, the amount of the reserve reflects my opinion, based on presently available information, as to the amount necessary to protect Legion's interests and obligations in light of current market conditions and external insurance industry factors that may affect Legion's ability to collect amounts owed.

13. My certification is made in reasonable reliance on the work of qualified

staff and the Estates' internal procedures for financial operations.

I verify that the matters stated therein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.



JOSEPH DIMEMMO

Sworn to and subscribed before me
this 18 th day of August, 2008.



NOTARY PUBLIC

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Jean A. Cuaz, Notary Public
City Of Harrisburg, Dauphin County
My Commission Expires Feb. 26, 2009
Member, Pennsylvania Association of Notaries