

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

Docket No. 03-E-0106

**In the Matter of the Liquidation of
The Home Insurance Company**

**MOTION FOR APPROVAL OF NINTH EARLY ACCESS
DISTRIBUTION TO INSURANCE GUARANTY ASSOCIATIONS**

Roger A. Sevigny, Insurance Commissioner of the State of New Hampshire, as Liquidator (“Liquidator”) of The Home Insurance Company (“Home”), hereby moves for approval of a ninth early access distribution to insurance guaranty associations in an amount equal to the reported claims that the guaranty associations have paid under Home insurance policies from entry of the liquidation order through September 30, 2012, net of guaranty association recoveries and approved early access distribution amounts and subject to deductions for deposits and unpaid/unreturned funds, deductible reimbursements, amounts reported as “claim expenses” that do not have Class II priority, and questioned claim items. The proposed ninth early access distribution would also be subject to application of a percentage distribution cap. As reasons therefor, the Liquidator states:

Background

1. The insurer liquidation statutes provide the New Hampshire Insurance Guaranty Association, the New Hampshire Life and Health Insurance Guaranty Association, and any similar organization in another state (the “guaranty associations”) with early access to estate assets because the guaranty associations are ultimately funded by the insurance buying (or, in some states, tax-paying) public. See RSA 402-C:39, III. Guaranty association obligations are initially funded by assessments on their member insurers. See, e.g., RSA 404-B:8, I(c); CAL.

INS. CODE § 1063.5; TEX. INS. CODE § 462.151. Statutes then provide various mechanisms through which member insurers may recoup guaranty association assessments by passing them on to the broader public. See, e.g., RSA 404-B:16 (increase in rates and premiums); CAL. INS. CODE § 1063.14(a) (surcharge on policies); TEX. INS. CODE § 462.157 (offset to the members' premium taxes). Together with other forms of recovery (e.g., subrogation pursuant to RSA 404-B:11, I), early access distributions reduce guaranty association operating deficits and thus the need for payment by the public.

2. New Hampshire statutes require that the Liquidator make application to the Court “from time to time” for approval of a proposal to distribute assets from the estate to the guaranty associations. RSA 402-C:29, III(a). On October 8, 2003, the Liquidator applied for approval of an Early Access Distribution Plan (“Plan”) in accordance with RSA 402-C:29, III. The Plan included a form of Early Access Distribution Agreement (“Agreement”) to be entered into by guaranty associations receiving an early access distribution. The Court approved the Plan and Agreement by order entered October 22, 2003. Affidavit of Peter A. Bengelsdorf in Support of Liquidator’s Motion for Approval of Ninth Early Access Distribution to Insurance Guaranty Associations (“Bengelsdorf Aff.”) ¶ 2.

3. The guaranty association claims on which early access distributions can be made are those with Class II priority. Guaranty association claims with Class I priority are “expenses of administration” for which provision must be made prior to any early access distribution.¹ See RSA 402-C:29, III(b)(1). See also RSA 402-C:44, I; RSA 404-B:11, II. Because payment of Class I claims occurs outside the early access distribution process, guaranty associations’ Class II claims are the first class of claims eligible for early access distributions. See RSA 404-C:44 (all

¹ In the Home liquidation such provision is made by issuing Class I claim notices and paying a Class I distribution on an annual basis. Bengelsdorf Aff. ¶ 3.

claims in a priority class must be paid in full before claims of lower priority classes may receive payment). The assets of the Home estate will not be sufficient to pay all Class I and Class II claims in full so guaranty associations' Class II claims are the only claims on which early access distributions can be made. See id.; Bengelsdorf Aff. ¶ 3.

4. Guaranty association Class II claims are claims against Home's estate arising from the associations' obligations to make payment on "covered claims." See RSA 404-C:44, II; RSA 404-B:8, I(a) and I(b). Pursuant to statute, "covered claims" are claims against the guaranty associations (including claims for unearned premiums) which arise out of and are within the coverage and not in excess of applicable limits of insurance policies issued by the insolvent insurer. See RSA 404-B:5, IV (definition of "covered claim"). Subject to statutory and policy limits and conditions, the guaranty associations' obligations under policies issued by Home thus encompass both indemnity and claim defense expense payments.² See RSA 402-C:44, II; RSA 404-B:8, I(a) and I(b). These are the claims on which the Court has approved previous early access distributions and on which the Liquidator now proposes to make a ninth early access distribution. Bengelsdorf Aff. ¶ 4.

5. Since the commencement of this liquidation proceeding, fifty-seven guaranty associations have reported making indemnity or defense payments under insurance policies issued by Home. Beginning in 2004, the Liquidator has regularly moved for (and the Court has approved) early access distributions based on reported guaranty association payments less reported recoveries. Most recently, the Liquidator moved for approval of an eighth early access distribution of approximately \$15 million on December 12, 2011, and the Court approved the

² Certain guaranty associations have taken the position that claim defense expenses are Class I administration costs rather than Class II policy related claims. The Liquidator has agreed that the receipt of an early access distribution by a guaranty association shall not be deemed to constitute an admission by the guaranty association that claim defense expenses are a Class II claim. Bengelsdorf Aff. at 2, note 1.

eighth early access distribution on January 25, 2012. The Liquidator applied deductions and a 40% distribution cap and made an eighth early access distribution totaling \$10,867,471.37. Bengelsdorf Aff. ¶ 5.

The Proposed Ninth Early Access Distribution

6. Guaranty Association Payments, Recoveries, and Early Access Distributions. The guaranty associations have reported paying \$420,301,073.38 through September 30, 2012, regarding policies of insurance issued by Home (\$377,006,967.79 in indemnity and \$43,294,105.59 in “claim expense payments”).³ The guaranty associations also reported recoveries (e.g. subrogation, net worth, and second injury fund recoveries) totaling \$43,776,851.58, so the guaranty associations’ reported payments after recoveries total \$376,524,221.80. The approved first through eighth early access distribution amounts totaled \$346,086,500.94.⁴ Accordingly, the potential total for a ninth early access distribution (which would then be subject to deductions and the distribution cap) is \$30,437,720.86. A chart showing reported payments and recoveries through September 30, 2012 (as reported by each guaranty association by October 30, 2012) together with the previously approved early access payments and potential ninth early access distribution amounts is attached as Exhibit A to the Bengelsdorf Affidavit. Bengelsdorf Aff. ¶ 6.

7. Estate Assets. As of December 31, 2012, the unrestricted liquid assets of the Home estate in the Liquidator’s control totaled \$1,142,120,222 as set forth in the Statement of Net Assets (unaudited) attached as Exhibit B to the Bengelsdorf Affidavit. The liquid assets

³ “Claim expense payments” reported by certain guaranty associations may include amounts to which the Liquidator will assign Class I, Class II, or Class V priority. Bengelsdorf Aff. at 2, note 2.

⁴ The amounts paid by guaranty associations and the prior early access distribution amounts in this paragraph include the \$3,148,212.13 paid to workers compensation claimants on behalf of guaranty associations during 2003 by the Liquidator as advances on early access distributions in order to avoid disruptions in payments to the claimants during the transition of claim paying responsibility to the guaranty associations. Bengelsdorf Aff. at 3, note 3.

available to the Liquidator are thus approximately thirty-seven times the amount of the guaranty associations' payments eligible for a ninth early access distribution, and they exceed those payments by over \$1.1 billion. The liquid assets that would remain after the proposed ninth early access distribution are approximately three times the amount of the guaranty associations' net payments through September 30, 2012. Bengelsdorf Aff. ¶ 7.

8. Deposits and Unpaid/Unreturned Funds. Prior to liquidation, Home had made deposits in a number of states as required by the laws of those states. As contemplated by the Plan and the orders approving the prior early access distributions, the Liquidator deducted the amount of deposits in certain states from the early access distributions where the deposit had not been returned to the Liquidator. This served to provide equivalent reimbursement from Home to the various guaranty associations. Where deposits remain unreturned and were not deducted in connection with the prior early access distributions, the Liquidator will deduct the amount of a deposit in a particular state from the ninth early access distribution to the guaranty association in that state. The Liquidator may also deduct amounts due to Home from guaranty associations for other reasons where the guaranty association has not paid the amount to the Liquidator.

Bengelsdorf Aff. ¶ 8.

9. Deductible Reimbursements. The guaranty associations receive so-called "deductible reimbursements" from certain policyholders who had entered agreements with Home under which they were to reimburse Home for amounts it paid to claimants within agreed deductible amounts. The guaranty associations that have paid claims within those amounts may recover from such policyholders as more fully set forth in the Liquidator's Motion for Approval of Agreement Regarding Home Deductible Policies filed March 23, 2011, but those amounts are not included within the recoveries identified on Exhibit A to the Bengelsdorf Affidavit. The

Liquidator will deduct the amount of such deductible reimbursements by a particular guaranty association from the ninth early access distribution to that association. Bengelsdorf Aff. ¶ 9.

10. Class I and Class V Claims. Certain amounts reported as “claim expenses” may not be defense payments made pursuant to a Home policy and, instead, may be classified as expenses of administration with Class I priority. See RSA 402-C:44, II; RSA 404-B:11, I. The Liquidator will deduct the amount of any such Class I claims from the ninth early access distribution. Similarly, portions of the “claim expenses” reported by the guaranty associations may not be entitled to Class I or Class II priority and therefore have Class V priority. See RSA 402-C:44, I – V. Class V claims are not eligible for distribution (see, supra, ¶ 3) so the Liquidator will deduct the amount of any such claims from the ninth early access distribution.⁵ Bengelsdorf Aff. ¶ 10.

11. Removal of Questioned Claim Items. The Liquidator asks guaranty associations for clarification regarding payments, expenses, or recoveries. There is now one questioned item (from the New York Security Fund) which is the subject of a request for review and would be deducted from the early access distribution. Bengelsdorf Aff. ¶ 11.

12. Distribution Cap. To receive an early access distribution under the Plan, a guaranty association must execute the Agreement. As required by RSA 402-C:29, III, the Agreement provides that the signatory guaranty association will return early access distributions that the Liquidator subsequently determines are necessary to pay claims of secured creditors or creditors whose claims fall into the same or a higher priority class than those of the guaranty

⁵ As with guaranty association assertions regarding claims defense expenses (see note 2 supra) the Liquidator agrees that the receipt by a guaranty association of any early access distribution from which Class V claims have been deducted does not constitute an admission by the guaranty association as to the proper priority classification of the deducted claims. Bengelsdorf Aff. at 4, note 4.

association. This is sometimes referred to as a “claw back”. All but two guaranty associations have executed the Agreement. Bengelsdorf Aff. ¶ 12.

13. It is expected that the guaranty associations will submit significant additional requests for reimbursement from the Home estate in the future due to their ongoing obligations on covered claims under policies of insurance issued by Home. The first two early access distributions accordingly equaled one-hundred percent (100%) of the amounts the guaranty funds had paid as of September 30, 2005. The third through eighth early access distributions were based on 100% of guaranty fund payments as of September 30 for each year from 2006 through 2011, but they were subject to a distribution cap equal to forty percent (40%) of the total incurred costs projected by each guaranty association.⁶ The Liquidator plans to apply this 40% cap to the proposed ninth early access distribution as well. The 40% cap is not an estimate of the ultimate distribution that will be made on Class II claims but, instead, is designed to avoid situations in which a “claw back” pursuant to RSA 402-C:29, III(b)(4) and the Agreement may be necessary by keeping each guaranty association’s total early access distributions at a level of no more than 40% of its total projected incurred costs. The cap is expected to affect thirty-four guaranty associations. Bengelsdorf Aff. ¶ 13; Bengelsdorf Aff. Ex. A (noting the affected associations).

14. Amount Proposed to be Distributed. Deductions for deposits and unpaid/unreturned funds, deductible reimbursements, Class I and Class V claim expenses, and questioned items, together with the distribution cap, will reduce the amount of the proposed ninth

⁶ For purposes of early distribution calculations, “total incurred” costs includes paid amounts, case reserves, and any amounts subject to requests for redetermination but does not include reserves for incurred but not reported loss or for claims subject to “net worth” provisions. Consistent with the use of reported claim expenses (rather than determined claims), reserves against which the distribution cap is applied reflect guaranty association estimates rather than Liquidator calculations. Bengelsdorf Aff. ¶ at 5, note 5.

early access distribution by approximately \$15.1 million. The Liquidator therefore expects that the total amount distributed will be approximately \$15.3 million. Bengelsdorf Aff. ¶ 14.

The United States Priority Act

15. As noted in the Plan, the United States Department of Justice has asserted in other insurer liquidations that the claim filing deadline does not apply to claims by the Federal Government in light of the federal priority act, 31 U.S.C. § 3713, so that it can at any time file claims entitled to payment by the Liquidator on pain of potential personal liability. See 31 U.S.C. § 3713(b); Ruthardt v. United States, 303 F.3d 375, 384-386 (1st Cir. 2002), cert. denied, 538 U.S. 1031 (2003).

16. The Liquidator obtained limited waivers of alleged federal priority claims as a precondition to making the first through sixth early access distributions. It appears unlikely that the United States will grant a further waiver at this time. (The Liquidator and the United States have recently concluded litigation in the federal courts with respect to a provision of the Longshore and Harbor Workers Compensation Act, see Solis v. The Home Ins. Co., 848 F.Supp.2d 91 (D. N.H. 2012), and the United States is now pursuing state law claims before this Court.) However, in light of the statutory claw back provision, the Agreement with guaranty associations receiving early access distributions, and the factors described in ¶ 7, the Liquidator believes that making the proposed ninth early access distribution is reasonable and prudent even without such a waiver. The Liquidator will consider this issue anew in connection with any future proposed early access distributions. See Bengelsdorf Aff. ¶ 15.

WHEREFORE, the Liquidator requests that the Court:

A. Grant this Motion for Approval of Ninth Early Access Distribution to Insurance Guaranty Associations;

B. Enter an order in the form submitted herewith approving the ninth early access distribution based on reported guaranty association payments through September 30, 2012, less recoveries and previous early access distribution amounts, all as set forth on Exhibit A to the Bengelsdorf Affidavit, and subject to deductions for deposits and unpaid/unreturned funds, deductible reimbursements, amounts with Class I or Class V priority, and questioned items and also to the 40% distribution cap; and

C. Grant such other and further relief as justice may require.

Respectfully submitted,

ROGER A. SEVIGNY, INSURANCE
COMMISSIONER OF THE STATE OF NEW
HAMPSHIRE, SOLELY AS LIQUIDATOR OF
THE HOME INSURANCE COMPANY,

By his attorney,

MICHAEL A. DELANEY,
ATTORNEY GENERAL

J. Christopher Marshall, NH Bar ID No. 1619
Civil Bureau, New Hampshire Department of Justice
33 Capitol Street
Concord, NH 03301-6397
(603) 271-3650

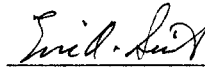


J. David Leslie, NH Bar ID No. 16859
Eric A. Smith, NH Bar ID No. 16952
Rackemann, Sawyer & Brewster P.C.
160 Federal Street
Boston, MA 02110
(617) 542-2300

February 6, 2013

Certificate of Service

I hereby certify that a copy of the foregoing Motion For Approval of Ninth Early Access Distribution to Insurance Guaranty Associations, the accompanying Affidavit of Peter A. Bengelsdorf, and the Proposed Order Approving Ninth Early Access Distribution to Insurance Guaranty Associations was sent, this 6th day of February, 2013, by first class mail, postage prepaid to all persons on the attached service list.

A handwritten signature in cursive script, appearing to read "Eric A. Smith", is written over a horizontal line.

Eric A. Smith

THE STATE OF NEW HAMPSHIRE

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SERVICE LIST

Lisa Snow Wade, Esq.
Orr & Reno
One Eagle Square
P.O. Box 3550
Concord, New Hampshire 03302-3550

Gary S. Lee, Esq.
James J. DeCristofaro, Esq.
Kathleen E. Schaaf, Esq.
Morrison & Foerster
1290 Avenue of the Americas
New York, New York 10104-0050

George T. Campbell, III, Esq.
Robert A. Stein, Esq.
Robert A. Stein & Associates, PLLC
One Barberry Lane
P.O. Box 2159
Concord, New Hampshire 03302-2159

David M. Spector, Esq.
Dennis G. LaGory, Esq.
Schiff Hardin LLP
6600 Sears Tower
Chicago, Illinois 60606

Michael Cohen, Esq.
Cohen & Buckley, LLP
1301 York Road
Baltimore, Maryland 21093

David H. Simmons, Esq.
Mary Ann Etzler, Esq.
Daniel J. O'Malley, Esq.
deBeaubien, Knight, Simmons, Mantzaris & Neal, LLP
332 North Magnolia Avenue
P.O. Box 87
Orlando, Florida 32801

Martin P. Honigberg, Esq.
Sullo way & Hollis, P.L.L.C.
9 Capitol Street
P.O. Box 1256
Concord, New Hampshire 03302-1256

Richard Mancino, Esq.
Willkie Farr & Gallagher, LLP
787 Seventh Avenue
New York, New York 10019

Joseph G. Davis, Esq.
Willkie Farr & Gallagher, LLP
1875 K Street, N.W.
Washington, DC 20006

Albert P. Bedecarre, Esq.
Quinn Emanuel Urguhart Oliver & Hedges, LLP
50 California Street, 22nd Floor
San Francisco, California 94111

Jeffrey W. Moss, Esq.
Morgan Lewis & Bockius, LLP
225 Franklin Street
16th Floor
Boston, Massachusetts 02110

Gerald J. Petros, Esq.
Hinckley, Allen & Snyder LLP
50 Kennedy Plaza, Suite 1500
Providence, Rhode Island 02903

Christopher H.M. Carter, Esq.
Hinckley, Allen & Snyder LLP
11 South Main Street, Suite 400
Concord, New Hampshire 03301

Robert M. Horkoviceh, Esq.
Robert Y. Chung, Esq.
Anderson Kill & Olick, P.C.
1251 Avenue of the Americas
New York, New York 10020

Andrew B. Livernois, Esq.
Ransmeier & Spellman, P.C.
One Capitol Street
P.O. Box 600
Concord, New Hampshire 03302-0600

John A. Hubbard
615 7th Avenue South
Great Falls, Montana 59405

Adebowale O. Osijo
2015 East Pontiac Way, Suite 209
Fresno, California 93726

Paul W. Kalish, Esq.
Ellen M. Farrell, Esq.
Kristine E. Nelson, Esq.
Crowell & Moring
1001 Pennsylvania Avenue, N.W.
Washington, DC 20004-2595

Harry L. Bowles
306 Big Hollow Lane
Houston, Texas 77042

Gregory T. LoCasale, Esq.
White and Williams, LLP
One Liberty Place, Suite 1800
Philadelphia, Pennsylvania 19103-7395

Kyle A. Forsyth, Esq.
Commercial Litigation Branch
Civil Division
United States Department of Justice
P.O. Box 875
Washington, D.C. 20044-0875

W. Daniel Deane, Esq.
Nixon Peabody LLP
900 Elm Street, 14th Floor
Manchester, New Hampshire 03861

Joseph C. Tanski, Esq.
John S. Stadler, Esq.
Nixon Peabody LLP
100 Summer Street
Boston, Massachusetts 02110