

**IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,
IN AND FOR LEON COUNTY, FLORIDA**

State of Florida, ex rel.,
the Department of Financial Services
of the State of Florida,

Relator

CASE NO.: 2022 CA 001008

v.

Southern Fidelity Insurance Company,

Respondent.

_____ /

**PETITION FOR CONSENT ORDER APPOINTING THE FLORIDA DEPARTMENT
OF FINANCIAL SERVICES AS RECEIVER OF SOUTHERN FIDELITY INSURANCE
COMPANY FOR PURPOSES OF LIQUIDATION, INJUNCTION, AND NOTICE OF
AUTOMATIC STAY**

The Florida Department of Financial Services, Division of Rehabilitation and Liquidation (“Department”), hereby petitions this Court pursuant to sections 631.031, 631.051, and 631.061, Florida Statutes (2022) for the entry of a Consent Order Appointing the Department as Receiver of Southern Fidelity Insurance Company (“Respondent” or “Company”) for purposes of liquidation, injunction, and notice of automatic stay. In support of its petition, the Department states:

1. Respondent was licensed by the Florida Office of Insurance Regulation (“OIR”), as a domestic property and casualty insurer authorized to transact insurance business in the state of Florida pursuant to Part III of Chapter 624, Florida Statutes. Respondent’s principal place of business is located at: 2750 Chancellorsville Drive, Tallahassee, Florida 32312.

2. Section 631.021, Florida Statutes, provides that a delinquency proceeding pursuant to chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving a Florida domiciled insurer.

3. This Court has original jurisdiction over these proceedings and can exercise jurisdiction over any person required by section 631.391, Florida Statutes, to cooperate with the Department and OIR and over all other persons made subject to this Court's jurisdiction by other provisions of law. §§ 631.021(1) and 631.025, Fla. Stat. Additionally, this Court is authorized to enter all necessary or proper orders to carry out the purpose of the Florida Insurers Rehabilitation and Liquidation Act, sections 631.001 *et seq.*, Florida Statutes. § 631.021(1), Fla. Stat.

4. Venue is proper in the Circuit Court of Leon County. § 631.021(2), Fla. Stat.

5. Upon a determination by OIR that one or more grounds exist to initiate a delinquency proceeding against an insurer, and upon OIR's determination that a delinquency proceeding should be initiated, OIR is required to refer the insurer to the Department for the initiation of such delinquency proceeding. § 631.031(1), Fla. Stat.

6. By letter dated June 10, 2022, and pursuant to section 631.031(1), Florida Statutes, David Altmaier, Commissioner of OIR, advised Florida's Chief Financial Officer, Jimmy Patronis, that grounds exist for the initiation of delinquency proceedings against Respondent. A copy of the letter is attached hereto and incorporated herein as **Department Exhibit "A"**.

7. Section 631.031(2), Florida Statutes, empowers the Department to petition this Court for a consent order directing it to liquidate a domestic insurer. Based on the documentation received from OIR, including the affidavit of Virginia A. Christy, the Director of Property and Casualty Financial Oversight and a Consent to Order of Receivership executed by Respondent on June 9, 2022, the Department has confirmed that grounds exist that warrant the liquidation of Respondent. A copy of the affidavit of Virginia A. Christy is incorporated herein as **Department Exhibit "B"**. A copy of the Consent to Order of Receivership signed by Respondent is attached thereto as **Exhibit J to Affidavit of Virginia A. Christy**.

8. Pursuant to section 631.061, Florida Statutes, the Department may apply to this Court for an Order appointing it as Receiver and directing it to liquidate Respondent's business if Respondent "is or is about to become insolvent." Respondent is currently insolvent within the meaning of section 631.011(14), Florida Statutes.

a. An insurer is insolvent when all of the assets of the insurer, if made immediately available, would not be sufficient to discharge all its liabilities or when the insurer is unable to pay its debts as they become due in the usual course of business. § 631.011(14), Fla. Stat.

b. According to the Affidavit of Virginia A. Christy, Respondent's monthly financial statement ("Statement") for the period ending April 30, 2022, reported total liabilities of \$298,807,763 and total assets of \$402,889,912. On June 9, 2022, Respondent modified its Statement by providing "a contingent liability for reserve development of at least \$104.2 million" which increased the previously reported liabilities on the Statement to \$403,007,763. Consequently, Respondent's assets as reported are insufficient to discharge all its liabilities, thus rendering Respondent insolvent as defined by section 631.011(14), Florida Statutes. Christy Aff. ¶¶ 36-38.

9. Additionally, pursuant to section 631.061, Florida Statutes, the Department may apply to this Court for an Order directing it to liquidate Respondent's business based on any of the grounds specified in section 631.051, Florida Statutes.

10. Section 631.051(3), Florida Statutes, authorizes the initiation of delinquency proceedings against an insurer if the insurer "is found by OIR to be in such condition or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors,

stockholder, or the public.” According to the Affidavit of Virginia A. Christy, Respondent’s catastrophe reinsurance program expired on May 31, 2022, and Respondent “currently has no catastrophe reinsurance to cover its existing policyholders during the 2022-2023 Atlantic Hurricane season.” Respondent’s lack of catastrophe reinsurance renders the continuation of its insurance business prospectively hazardous to its policyholders. Christy Aff. ¶¶ 39-41.

11. Section 631.051(11), Florida Statutes, authorizes the initiation of delinquency proceedings against an insurer if the insurer has consented through a majority of its directors, stockholders, members, or subscribers to the entry of an order placing Respondent into receivership. On June 9, 2022, Respondent, through a Resolution of its board of directors, consented to the appointment of the Department as Receiver of Respondent, has waived any hearing on the Department’s petition, and has waived any right to appeal the order entered by this court appointing the Department as the Receiver of Respondent. Christy Aff. ¶¶ 42-45.

12. Accordingly, the Department requests the entry of a Consent Order (a) appointing the Department as Receiver of Respondent for purposes of liquidation, pursuant to sections 631.031, 631.061, and 631.141. Florida Statutes, (b) issuing an injunction, pursuant to sections 631.041(3) and (4), Florida Statutes, and (c) giving notice of the automatic stay, pursuant to section 631.041(1).

WHEREFORE, the Florida Department of Financial Services, Division of Rehabilitation and Liquidation, respectfully requests that this Court enter a Consent Order appointing the Department of Financial Services as Receiver of Southern Fidelity Insurance Company for the purposes of liquidation, injunction, and notice of automatic stay.

Respectfully Submitted on this the 13th day of June 2022.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on June 13, 2022, a complete and accurate copy of the foregoing document was filed with the Clerk of Courts using the Florida Courts e-filing portal and was served on all email addresses listed in the portal for service in this matter.

/s/ Jamila G. Gooden

Miriam O. Victorian, Chief Attorney

Florida Bar No. 355471

Miriam.Victorian@myfloridacfo.com

Jamila G. Gooden, Senior Attorney

Florida Bar No. 46740

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Florida Department of Financial Services

Division of Rehabilitation and Liquidation

325 John Knox Road

The Atrium, Suite 101

Tallahassee, FL 32303

Telephone: (850) 413-4408

**Department
Exhibit A**



FINANCIAL SERVICES
COMMISSION

RON DESANTIS
GOVERNOR

JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

NICOLE "NIKKI" FRIED
COMMISSIONER OF
AGRICULTURE

OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

June 10, 2022

The Honorable Jimmy Patronis
The Chief Financial Officer
Department of Financial Services
The Capitol, PL-11
Tallahassee, FL 32399

Re: Southern Fidelity Insurance Company

Dear Chief Financial Officer Patronis:

Pursuant to Chapter 631, Florida Statutes, the Office of Insurance Regulation ("Office") has determined that one or more grounds exist for the Department of Financial Services, Division of Rehabilitation and Liquidation ("Department"), to initiate delinquency proceedings against Southern Fidelity Insurance Company ("Southern Fidelity"). Attached to this letter please find an affidavit setting forth the grounds specified, including the date Southern Fidelity was deemed impaired or insolvent as those terms are defined in Sections 631.011, a concise statement of the circumstances that led to the delinquency, and a summary of the actions taken by Southern Fidelity and the Office to avoid delinquency, along with a consent to order of receivership signed by Southern Fidelity so that the Department can promptly initiate those proceedings.

As always, the Office stands ready to provide any additional information or assistance the Department needs in order for this matter to proceed as expeditiously as possible. Thank you for your attention to this matter.

Sincerely,

David Altmaier, Commissioner
Office of Insurance Regulation

Enclosure

cc:

Michael Dobson, General Counsel,
Department of Financial Services

• • •

DAVID ALTMAIER • COMMISSIONER
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0305 • (850) 413-5914 • FAX (850) 488-3334
WEBSITE: WWW.FLOIR.COM • EMAIL: DAVID.ALTMAIER@FLOIR.COM

**Department
Exhibit B**

AFFIDAVIT OF VIRGINIA A. CHRISTY

STATE OF FLORIDA

COUNTY OF Leon

BEFORE ME, the undersigned authority, personally appeared Virginia A. Christy, who after being duly sworn, deposes and says:

1. I, Virginia A. Christy, am over the age of eighteen (18), sui juris, and I am competent to testify to and have personal knowledge of the facts contained herein.

2. I have been employed by the Florida Office of Insurance Regulation (hereinafter referred to as "OFFICE") since July 2012. From July 2012 to August 2014, I served as Assistant General Counsel. From September 2014 to August 2017, I served as Chief Assistant General Counsel for the OFFICE. In that position, I supervised the Legal Division's Regulatory Section, which provided legal representation to several business units in the OFFICE, including Property & Casualty Financial Oversight.

3. Since September 2017, I have held the position of Director of the Property & Casualty Financial Oversight business unit. In this position, I supervise a team of over fifty employees, including twenty persons specifically assigned to financial analysis of insurance companies licensed to do business in Florida.

4. I have a Bachelor of Science degree in Business Administration with a major in Accounting from Missouri Southern State College and a Juris Doctor from Florida Coastal School of Law. I am a member of the Florida Bar.

5. Southern Fidelity Insurance Company (hereinafter referred to as "SOUTHERN FIDELITY") holds a license as a state of Florida domestic property and casualty insurer and is

authorized to write in the lines of (010) Fire, (020) Allied Lines, (040) Homeowners Multi-Peril, (050) Commercial Multi-Peril, and (170) Other Liability, pursuant to Part III of Chapter 624, Florida Statutes.

6. As a licensed insurer, SOUTHERN FIDELITY is subject to the regulation of the OFFICE pursuant to the Florida Insurance Code.

CIRCUMSTANCES THAT LED TO SOUTHERN FIDELITY'S DELINQUENCY and ACTIONS TAKEN BY THE INSURER AND THE OFFICE TO AVOID DELINQUENCY

7. On February 28, 2019, affiliate Southern Fidelity Property & Casualty, Inc. ("SFPC") merged with and into Capitol Preferred Insurance Company ("CPIC"). SFPC's poor financial results, stemming mainly from underwriting losses, as of 2018-year end, became those of CPIC. Over the course of the next year, both SOUTHERN FIDELITY and CPIC continued to post poor operating results.

8. CPIC's continuing underwriting losses were largely related to the unprofitable book of business inherited from SFPC. CPIC's rates proved to be inadequate, and CPIC management failed to file annual rate filings with the OFFICE.

9. On or about February 1, 2020, both CPIC and SOUTHERN FIDELITY were required by the OFFICE to file monthly financial statements and risk-based capital estimates.

10. On May 12, 2020, as results continued to deteriorate, notwithstanding the implementation of multiple remedial rate increases, the OFFICE approved by Consent Order 263348-20-CO, attached as Exhibit A and hereby incorporated by reference, the request by CPIC to cancel approximately 23,800 policies, all of which were previously policies written by SFPC.

11. Beginning in June of 2020, CPIC and SOUTHERN FIDELITY were required to participate on monthly update calls with the OFFICE.

12. On August 7, 2020, both CPIC and SOUTHERN FIDELITY participated in a required public hearing to provide evidence and testimony in support of its requested rate increases of 31.1% and 26.2%, respectively.

13. Subsequent to the rate hearing noted in paragraph 12 above, SOUTHERN FIDELITY, CPIC, and National Consumer Title Insurance Company requested multiple corporate changes that would recapitalize the companies. These changes included the merger of CPIC with and into SOUTHERN FIDELITY, the direct acquisition of more than 10% of SOUTHERN FIDELITY, the direct acquisition of more than 10% of National Consumer Title Insurance Company and plans to sell the title company.

14. On September 4, 2020, the OFFICE approved by Consent Order 269310-20, attached as Exhibit B and hereby incorporated by reference, the proposed merger of CPIC with and into SOUTHERN FIDELITY and the rate increases that were the subject of the public hearing noted in paragraph 12, above. After the review of a proposed long-term capital plan to support the continued operations of the company was provided to the OFFICE by SOUTHERN FIDELITY, this Consent Order was amended on October 15, 2020 by Consent Order 271168-20-CO, attached as Exhibit B-1 and hereby incorporated by reference, to require the infusion of capital by November 1, 2020.

15. SOUTHERN FIDELITY's combined surplus reported in the August monthly financial statement, filed with the OFFICE on September 21, 2020, was just over the minimum required surplus, indicating that the company was at risk of impairment or insolvency if an immediate capital infusion was not made. On October 26, 2020, the OFFICE issued Order 271513-

20, attached as Exhibit C and hereby incorporated by reference, placing SOUTHERN FIDELITY in Confidential Administrative Supervision. The Administrative Supervision Order which was amended pursuant to Consent Order 272107-20-CO, attached as Exhibit C-1 and hereby incorporated by reference, required the infusion of at least \$35 million into SOUTHERN FIDELITY by early November 2020.

16. On November 16, 2020, SOUTHERN FIDELITY, through Consent Order 272567-20-CO, attached as Exhibit D and hereby incorporated by reference, was approved to be acquired by Gulf & Atlantic Insurance Companies, Inc., which is ultimately owned by Hudson Capital Management, LP, a Bermuda limited partnership whose general partner is HSCM GP, LLC, a Delaware limited liability company. As a result, SOUTHERN FIDELITY was provided \$50 million of capital; \$45 million of it was reported on the September 30, 2020 financial statement, and the remaining \$5 million was reported on the October 2020 monthly financial statement. Both capital infusions were approved by the OFFICE for Statement of Statutory Accounting Principle No. 72 (SSAP 72)¹ treatment.

17. SOUTHERN FIDELITY's underwriting losses continued into early 2021. SOUTHERN FIDELITY again requested the cancellation of policies identified as experiencing outsized claims activity in frequency and severity that were exceeding approved rates. A total of 19,632 policies were identified to be non-renewed over the next 13 to 14 months; 2,296 policies starting May 1, 2021, with less than 120 days' notice, and the remaining 17,336 policies over the remaining time with 120 days' notice. The request was approved on April 28, 2021, by Consent Order 280009-21-CO, attached as Exhibit E and hereby incorporated by reference.

¹ The Statement of Statutory Accounting Principles Number 72 allows an insurance company to account for additional funds received after "the as of date" of its financial statement if approved by its domestic regulator and proof of the funds are received prior to the required filing date of its quarterly and annual statements.

18. On July 20, 2021, the OFFICE approved by Consent Order 283142-21-CO, attached as Exhibit F and hereby incorporated by reference, the acquisition of National Consumer Title Insurance Company by HG Holdings, Inc. This acquisition provided additional capital to SOUTHERN FIDELITY in the amount of \$5.5 million in cash.

19. SOUTHERN FIDELITY implemented a Homeowner's Multi-Peril use and file rate increase with an overall average statewide increase of 84.5% on December 1, 2021.

20. SOUTHERN FIDELITY also implemented a Dwelling Fire use and file rate increase with an overall average statewide increase of 111.1% on January 1, 2022.

21. SOUTHERN FIDELITY made capital infusions after the financial statement period end, pursuant to SSAP 72, for each of the five periods since January 1, 2021. Those infusions totaled \$141 million.

22. Since the acquisition of SOUTHERN FIDELITY by Gulf & Atlantic Insurance Companies, Inc., HSCM GP, LLC has provided in excess of \$200 million in funding in an effort to avoid the delinquency of SOUTHERN FIDELITY.

EXPIRATION OF CATASTROPHE REINSURANCE

23. On May 25, 2022, the OFFICE received SOUTHERN FIDELITY's monthly financial statement ("Statement") for the period ending April 30, 2022, attached as Exhibit G and hereby incorporated by reference. In the Statement, SOUTHERN FIDELITY reported surplus as regards policyholders totaling \$30,157,451 United States Dollars ("USD"). See Exhibit G, page 2, line 37. SOUTHERN FIDELITY, at that time possessed the required surplus as regards policyholders. SOUTHERN FIDELITY's required surplus as regards policyholders, for the period ending April 30, 2022, as calculated by the OFFICE using the 10% of total liabilities standard was

\$26,258,987 SOUTHERN FIDELITY at that point in time had not submitted a Statement which reflected an impairment or insolvency.

24. On May 26, 2022, SOUTHERN FIDELITY notified its agents that it was suspending new business and renewals until the completion of securing its reinsurance coverage for the 2022 hurricane season. The announcement, attached as Exhibit H and hereby incorporated by reference, was provided to the OFFICE on May 27, 2022.

25. On June 2, 2022, SOUTHERN FIDELITY notified the OFFICE that its reinsurance program, which expired on May 31, 2022, could not be fully placed for the upcoming year. A conference call was held on June 2, 2022. During the call SOUTHERN FIDELITY stated that it was working on a definitive and binding agreement that would transfer its policies to another authorized carrier and provide funding for a solvent run-off of its current and incurred-but not reported liabilities.

26. On June 3, 2022, SOUTHERN FIDELITY entered into Consent Order 296496-22-CO, attached as Exhibit I and herein incorporated by reference, that required SOUTHERN FIDELITY to file a plan of remediation with the OFFICE by 5:00 p.m. (EDT), June 8, 2022. The plan required SOUTHERN FIDELITY to demonstrate, at a minimum, its ability to quickly provide for a successful transition of its policies to another insurer, fund a solvent run-off of its current and incurred-but-not reported liabilities, address potential reserve inadequacy issues and manage its non-Florida policies and losses. The plan required pro-forma projections and the assumptions used in the preparation of the proformas, along with a cash flow analysis that would demonstrate the viability of the plan. In addition, the plan required provisions for the financial protection for policyholders during the period of time necessary to implement the plan.

27. On June 8, 2022, SOUTHERN FIDELITY filed with the OFFICE a plan as required by the Consent Order 296496-22-CO, but the plan did not satisfy the requirements contained in the Consent Order, including but not limited to, providing financial protection for policyholders during the period of time that would be necessary to implement the plan.

28. On June 9, 2022, SOUTHERN FIDELITY notified the OFFICE that the development of the company's reserves for the Louisiana policies during the last month had exhausted its surplus. .

29. On June 9, 2022, SOUTHERN FIDELITY executed a Consent to Order of Receivership including a Resolution of its Board of Directors (Attachment A), hereinafter referred to as "Consent", a true and correct copy of the Consent is attached hereto as Exhibit J and hereby incorporated by reference, admitting that grounds exist for the appointment of a Receiver of SOUTHERN FIDELITY for Rehabilitation or Liquidation pursuant to Sections 631.051 and 631.061, Florida Statutes, and specifically admitting that it is insolvent as that term is defined in Section 631.011(14), Florida Statutes.

30. The OFFICE has determined that grounds exist for the Department of Financial Services (hereinafter referred to as "DEPARTMENT") to petition for an order, under Section 631.051 or 631.061, Florida Statutes, directing the DEPARTMENT to rehabilitate SOUTHERN FIDELITY or appointing the DEPARTMENT as receiver for purposes of liquidating the business of SOUTHERN FIDELITY. The four bases for this determination are summarized as follows:

BASIS ONE: SOUTHERN FIDELITY IS IMPAIRED

Authority: § 631.051(1) Fla. Stat.

31. Section 631.011(13), Florida Statutes, defines “impairment of surplus” as a surplus in an amount that “does not meet the requirements of section 624.408.” Pursuant to Section 624.408, Florida Statutes, SOUTHERN FIDELITY is required to “at all times” maintain surplus as to policyholders of at least the greater of \$15 million or 10% of its total liabilities.

32. Based on SOUTHERN FIDELITY’s Statement and pursuant to Section 624.408, Florida Statutes, SOUTHERN FIDELITY was required to maintain surplus as to policyholders in the amount of \$26,258,987.

33. SOUTHERN FIDELITY’s reported surplus as regards policyholders on April 30, 2022, was \$30,157,451 United States Dollars (“USD”). See Exhibit G, page 2, line 37. The amount of surplus calculated by the OFFICE for that Statement was \$26,258,987 resulting in excess surplus of some \$3.8 million. For the purposes of calculating minimum surplus and pursuant to Section 625.041(5), Florida Statutes, liabilities do not include taxes, expenses, and other obligations due or accrued at the date of the statement. Liabilities do include reserve items enumerated in Section 625.041 (1) – (4), Florida Statutes, which are reserve and unearned premium related items. During a bi-weekly call that took place on June 3, 2022, between SOUTHERN FIDELITY’s management team and members of the OFFICE, SOUTHERN FIDELITY indicated that during the month of May its underwriting losses totaled more than its excess surplus reported in its April 30, 2022, financial statement and no other funding of SOUTHERN FIDELITY had been or would be made, thereby rendering SOUTHERN FIDELITY insolvent as defined in Section 631.011(13) Florida Statutes as of June 3, 2022.

34. SOUTHERN FIDELITY was deemed impaired on June 3, 2022.

**BASIS TWO: SOUTHERN FIDELITY IS INSOLVENT OR ABOUT TO BECOME
INSOLVENT**

Authority: §§ 631.051(1) and 631.061(2) Fla. Stat.

35. Section 631.011(14), Florida Statutes, defines “insolvency” as a condition in which all of the assets of the insurer, if made immediately available, would be insufficient to discharge all of the liabilities of the insurer.

36. SOUTHERN FIDELITY’s total liabilities reported on its Statement were \$298,807,763 (see Exhibit G, page 2, line 28) and its total assets were \$402,889,912.

37. On June 9, 2022, SOUTHERN FIDELITY modified its Statement by providing a contingent liability for reserve development of at least \$104.2 million. As a result, SOUTHERN FIDELITY’S liabilities as reported on that Statement would increase to \$403,007,763 (\$298,807,763 + \$104,200,000). SOUTHERN FIDELITY’s assets reported in the amount of \$402,889,012 are insufficient to discharge all its liabilities, thereby rendering SOUTHERN FIDELITY insolvent as defined in Section 631.011(14) Florida Statutes as of April 30, 2022.

38. SOUTHERN FIDELITY was deemed insolvent on June 9, 2022.

BASIS THREE: FURTHER TRANSACTION OF INSURANCE IS HAZARDOUS TO POLICYHOLDERS, CREDITORS, STOCKHOLDERS, OR THE PUBLIC

Authority: §631.051(3), Fla. Stat.

39. SOUTHERN FIDELITY’s catastrophe reinsurance program expired on May 31, 2022.

40. SOUTHERN FIDELITY currently has no catastrophe reinsurance to cover its existing policyholders during the 2022-2023 Atlantic Hurricane season that began June 1, 2022.

41. Based on the above, the OFFICE has determined that SOUTHERN FIDELITY is operating in an unsound condition that is hazardous to policyholders, creditors, stockholders, and the public.

BASIS FOUR: CONSENT TO REHABILITATION OR LIQUIDATION

Authority: §631.051(11), Fla. Stat.

42. On June 9, 2022, SOUTHERN FIDELITY, through a majority of its directors, executed a Consent to Order of Receivership for the appointment of the Department of Financial Services, Division of Rehabilitation and Liquidation as Receiver. (See, Exhibit J). In the Consent, SOUTHERN FIDELITY specifically admits that it is insolvent as that term is defined in Section 631.011(14), Florida Statutes.

43. The Consent admits “that grounds exist for the appointment of a Receiver for Rehabilitation or Liquidation pursuant to Sections 631.051 and 631.061, Florida Statutes.” See Exhibit J, paragraph 3.

44. The Consent states as follows:

Pursuant to Sections 631.051(11) and 631.061 (on grounds of consent), Florida Statutes, Respondent consents, through a majority of its directors, stockholders, members, or subscribers, to the entry of an Order of Liquidation, appointing the Department of Financial Services (herein, the “Department”) as Receiver for Respondent, for the purposes of liquidation, and consents to any injunctions this Court deems necessary and appropriate.

Exhibit J, paragraph 4.

45. Further, the consent states:

Respondent agrees not to contest the initiation of delinquency proceedings by the DFS in the Circuit Court of the Second Judicial Circuit, in and for Leon County, Florida. Respondent agrees further that no hearing need be held on the DFS’ petition for an order appointing the DFS as Receiver.

Id.

CONCLUSION

As set forth above, SOUTHERN FIDELITY INSURANCE COMPANY is impaired and insolvent or about to become insolvent; is in such condition or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or the public; and has consented to rehabilitation or liquidation. Thus, grounds for issuing an Order for entry into receivership exist under Sections 631.051(1), 631.051(3), 631.051(11), and 631.061(1), Florida Statutes.

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FURTHER AFFIANT SAYETH NOT.

Virginia Christy
Virginia A. Christy, Director
Property & Casualty Financial Oversight
Office of Insurance Regulation

STATE OF Florida

COUNTY OF Leon

The foregoing instrument was acknowledged before me by means of physical presence

or online notarization, this 10 day of June 2022, by Virginia Christy

as Director of P&C Financial for Office of Insurance Regulation
(type of authority; e.g., officer, trustee, attorney in fact) (company name)

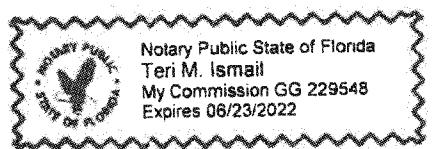
Teri M. Ismail
(Signature of the Notary)

Teri M. Ismail
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known OR Produced Identification _____

Type of Identification Produced _____

My Commission Expires 06/23/22



FILED

MAY 12 2020

INSURANCE REGULATION
Docketed by:



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 263348-20-CO

CAPITOL PREFERRED INSURANCE COMPANY, INC.

CONSENT ORDER

THIS CAUSE came on for consideration upon a request filed with the FLORIDA OFFICE OF INSURANCE REGULATION ("OFFICE") by CAPITOL PREFERRED INSURANCE COMPANY, INC. ("CAPITOL PREFERRED" or "the Company") for approval to cancel approximately 27,500 policies with 45 days' notice. Approval of such a request requires a finding by the OFFICE that the early cancellation of some or all of the insurer's policies is necessary to protect the best interests of the public or policyholders and the OFFICE approves the insurer's plan for early cancellation of some or all of its policies. The early cancellation of policies permitted by Section 627.4133(2)(b)6., Florida Statutes is an extraordinary statutory remedy reserved to address insurers which are or may be in hazardous financial condition without the cancellation of some or all of its policies. After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

INTRODUCTION

1. The OFFICE has jurisdiction over the parties and the subject matter of this proceeding.

2. CAPITOL PREFERRED is a domestic property and casualty insurer authorized to transact insurance business in the state of Florida pursuant to a Certificate of Authority issued by the OFFICE pursuant to Chapter 624, Part III, Florida Statutes.

3. CAPITOL PREFERRED has approximately 108,870 policies in force in Florida as of May 3, 2020, which primarily provide homeowners' insurance coverage.

4. CAPITOL PREFERRED has reported net losses of (\$5,130,111), (\$17,871,829), and (\$25,737,506) in its financial statements filed with the OFFICE for the years 2017, 2018, and 2019, respectively.¹ Losses by CAPITOL PREFERRED of the magnitude shown above are not sustainable, and if the underlying conditions that contributed to the losses remain unaddressed, continued losses may result in the Company being in hazardous financial condition.

5. CAPITOL PREFERRED provided documentation to the Office which reflects that without a reduction to the number of policies in force, the cost of catastrophe reinsurance for the 2020 Atlantic Hurricane Season will materially increase. The cost of reinsurance is based on a number of factors, including the number and type of policies in force, location of the policies, and the loss history associated with those policies. Catastrophe reinsurance is essential in the Florida property insurance market to provide insurers with enhanced ability to pay claims in the event of a catastrophic event.

¹Southern Fidelity Property & Casualty, Inc. merged with and into CAPITOL PREFERRED on February 28, 2019. The losses reflect the combined experience of the companies over the last 3 years.

ANALYSIS OF POLICIES FOR EARLY CANCELLATION

6. Section 627.4133(2)(b)6, Florida Statutes, provides the following regarding the early cancellation of a property insurance policy:

“Notwithstanding any other provision of law, an insurer may cancel or nonrenew a property insurance policy after at least 45 days’ notice if the office finds that the early cancellation of some or all of the insurer’s policies is necessary to protect the best interests of the public or policyholders and the office approves the insurer’s plan for early cancellation or nonrenewal of some or all of its policies. The office may base such finding upon the financial condition of the insurer, lack of adequate reinsurance coverage for hurricane risk, or other relevant factors. The office may condition its finding on the consent of the insurer to be placed under administrative supervision pursuant to s. 624.81 or to the appointment of a receiver under chapter 631.”

7. CAPITOL PREFERRED’s initial formal request was for the approval of the early cancellation of approximately 27,500 policies with 45 days’ notice to policyholders. In conjunction with that request, CAPITOL PREFERRED provided financial projections which demonstrated that absent such action, it may not be able to maintain surplus as to policyholders sufficient to meet the requirements of Section 624.408, Florida Statutes.

8. In response to the request from CAPITOL PREFERRED, the OFFICE required the Company to provide a number of additional pro forma financial projections to allow the OFFICE to evaluate both the potential impacts to the Company’s financial condition as well as its impact on policyholders.

9. The 27,500 policies that CAPITOL PREFERRED requested to cancel consists primarily of a block of approximately 23,800 homeowners’ policies originally written in the voluntary market by its affiliate Southern Fidelity Property & Casualty, Inc. (hereinafter referred to as the “SFPCI Block”) and acquired by CAPITOL PREFERRED during a merger with that company on February 28, 2019. The SFPCI Block is comprised of mostly homeowners’ (HO-3)

policies but also includes approximately 12 tenant (HO-4) policies and 4,500 condominium unit owner (HO-6) policies. Based on documentation provided by the Company, and the financial projections reviewed by the OFFICE, the SFPCI Block materially contributed to both the Company's past and projected losses and to its projected reinsurance costs.

10. CAPITOL PREFERRED represented to the OFFICE that the SFPCI Block has generated significant losses. In December of 2019, the Company made a "use and file" rate filing with the OFFICE which implemented a 47.0% rate increase for the SFPCI Block effective February 15, 2020. The 47% rate increase was later amended by the Company to a 36.5% rate increase in late January of 2020. The use and file rate increase was the subject of a public rate hearing held by the OFFICE in February of 2020. The projections reviewed by the OFFICE indicate that even with a substantial rate increase the SFPCI Block will continue to generate unsustainable losses. The data and documentation provided by the Company in connection with this rate filing supported an overall average statewide increase of 33.5%, which is approved. Refunds for amounts charged in excess of this approved amount must be made and an accounting provided to the OFFICE by June 1, 2020, as required by paragraphs 14 and 15.

11. The OFFICE carefully analyzed the projected financial impact of the request by CAPITOL PREFERRED to cancel 27,500 of its in-force policies and required the Company to model different scenarios and assumptions. In addition, the OFFICE analyzed the projected financial impact resulting from the cancellation of only the SFPCI Block of approximately 23,800 policies. That analysis demonstrated that the cancellation of only the SFPCI Block produced substantially similar financial results for the Company when compared with the original 27,500 policy cancellation request. However, and importantly, the cancellation of only the SFPCI Block resulted in almost 4,000 fewer cancellations for policyholders.

COMPANY REQUIREMENTS FOR EARLY CANCELLATION

12. Based on the documentation provided to the OFFICE, its internal analysis, and after review of other available options, the OFFICE finds that a more limited early cancellation of only the SFPCI Block of policies is in the best interests of the public, policyholders of CAPITOL PREFERRED, and the Florida property insurance market. This finding is based on the inability of the Company to sustain further losses of the magnitude reported in 2017, 2018, and 2019, the increased cost of catastrophe reinsurance coverage, and the determination that this targeted cancellation is the best option. The early cancellation of the SFPCI Block of policies with at least 45 days' advance notice to those policyholders is approved. CAPITOL PREFERRED's compliance with the corrective measures listed in paragraphs 13 through 22 below is material to the OFFICE's approval of this early cancellation.

13. CAPITOL PREFERRED must issue cancellation notices, to be approved in advance by the OFFICE, for the cancellation of the SFPCI Block only, providing at least 45 days' notice of cancellation to the policyholders. In addition, notices to the agents must be provided to the OFFICE for approval.

14. CAPITOL PREFERRED must refund unearned premiums to the affected policyholders or their mortgage companies or premium finance companies, as applicable, by no later than June 15, 2020 for each policy being cancelled.

15. By June 1, 2020 CAPITOL PREFERRED must provide an accounting to the OFFICE of all refunds that have been provided, and any that have not yet been provided to SFPCI policyholders for any premiums collected in excess of any rates approved by the OFFICE in connection with the February 2020 use and file rate filing.

16. CAPITOL PREFERRED must actively facilitate the placement of the SFPCI

policies with other insurers in the market by:

- a. Assisting in the replacement of these policies with its agency force; and
- b. Promptly posting or providing SFPCI policy level data to insurers within

3 calendar days of the execution of a non-disclosure agreement.

17. CAPITOL PREFERRED must continue to file monthly financial statements with the OFFICE until further notice. Those financial statements will be in the NAIC monthly statement format and submitted no later than the 21st of the following month. In addition, the Company will include in the monthly filing a listing of all policies in force by county and total insured value by county.

18. CAPITOL PREFERRED must limit its new and renewal business written to the number of policies shown in the proformas provided to the OFFICE by CAPITOL PREFERRED. Any change or increase to this new or renewal business limitation must be filed with and approved by the OFFICE. No policies from the SFPCI Block of policies may be rewritten on a different CAPITOL PREFERRED policy form or by an affiliated insurer.

REMEDIAL MEASURES FOR CONTINUED OPERATIONS

19. As a result of its operational results for the past three years, CAPITOL PREFERRED must submit an updated business plan to the OFFICE by 5:00 p.m. (EDT), July 1, 2020. The updated business plan must demonstrate the Company's ability to generate successful operating results by the implementation of underwriting changes, rate adjustments, operational savings, capital management, and other significant modifications to its current business model. The updated business plan for the period of July 1, 2020 through December 31, 2023 must include all assumptions used in its preparation, pro forma projections, cash flow analysis, and must include reinsurance necessary to provide coverage for at least a 130-year event. The updated

business plan must reflect the effects of the following:

- a. **Changes to be made in underwriting procedures that would limit capacity for new business and properly price and underwrite all business written or renewed;**
- b. **Pending litigation in which CAPITOL PREFERRED is named as a party;**
- c. **Capital funding and access to capital for the immediate 12 months;**
- d. **Open claims and additional efforts that could be made to successfully resolve them;**
- e. **Any projected adverse loss development;**
- f. **Proposed contracts for services by vendors or affiliates;**
- g. **Any additional reinsurance costs required; and**
- h. **Any material items from a proposed Strategic Plan that would impact the financial condition of CAPITOL PREFERRED.**

20. In addition to the updated business plan required in paragraph 19, CAPITOL PREFERRED must file with the OFFICE by December 31, 2020, a five-year Strategic Plan, which may be updated on a yearly basis and approved by its Board of Directors. The Strategic Plan must include a proposed timeline for any of the activities listed below which are expected to begin after the date the Strategic Plan is filed with the OFFICE. The Strategic Plan must address at a minimum the following:

- a. **Plans for new affiliates, acquisition and/or mergers;**
- b. **Plans for any new product offerings;**
- c. **Plans to raise capital and the use of that capital;**
- d. **Plans to assume blocks of business from another insurer or residual market;**

e. Plans to file an application to become an authorized insurer, add lines of business, or become an eligible surplus lines insurer in another state;

f. Plans to improve internal processes or procedures;

g. Plans to enhance cybersecurity of the Company and its affiliates.

21. Upon execution of this consent order and through December 31, 2020, CAPITOL PREFERRED may not, without the prior approval of the OFFICE:

a. Dispose of, convey, or encumber any of its assets;

b. Lend any of its funds;

c. Invest any of its funds except in accordance with its established investment policies in the ordinary course of business;

d. Transfer any of its property other than in the ordinary course of business;

e. Incur any debt, obligation, or liability other than in the ordinary course of business;

f. Merge or consolidate with another company;

g. Terminate, surrender, forfeit, convert, or lapse any insurance policy, certificate, or contract of insurance, except as permitted in accordance with its approved underwriting guidelines and rules in the ordinary course of business;

h. Release, pay, or refund premium deposits, accrued cash or loan values, unearned premiums, or other reserves on any insurance policy or certificate, except as permitted in accordance with its approved underwriting guidelines and rules in the ordinary course of business;

i. Make any material change in management or provide bonus or severance packages to any employee;

- j. Pay any dividends; or
- k. Enter into any new or amend any existing agreements with affiliates.

22. The OFFICE reserves the right to retain an individual or entity at the expense of CAPITOL PREFERRED to review all of the Company's direct and indirect expenses of its affiliates to determine if those expenses are fair and reasonable.

GENERAL TERMS

23. CAPITOL PREFERRED acknowledges and agrees that failure to comply with any of the terms of this Consent Order would constitute an immediate danger to the public and the OFFICE may immediately suspend, revoke, or take other administrative action as it deems appropriate upon the Certificate of Authority of CAPITOL PREFERRED in this state, in accordance with Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

24. Any prior orders, consent orders, or corrective action plans that CAPITOL PREFERRED has entered into with the OFFICE prior to the execution of this Consent Order shall apply and remain in full force and effect for CAPITOL PREFERRED, except where provisions of such orders, consent orders, or corrective action plans have expired; have been superseded by subsequent orders, consent orders, or corrective action plans; or are inconsistent with this Consent Order.

25. Each party to this action shall bear its own costs and fees.

26. CAPITOL PREFERRED expressly waives its rights to a hearing in this matter, the making of findings of fact and conclusions of law by the OFFICE, and all further and other proceedings to which CAPITOL PREFERRED may be entitled, either by law or by rules of the OFFICE. CAPITOL PREFERRED hereby knowingly and voluntarily waive all rights to

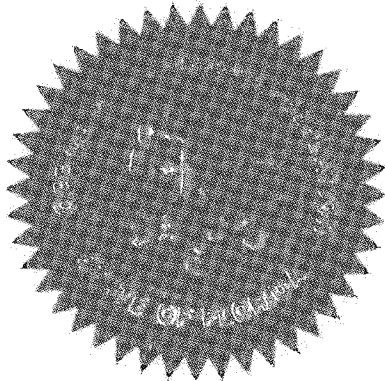
challenge or to contest this Consent Order, in any forum now or in the future available to them, including the right to any administrative proceeding, state or federal court action, or any appeal.

27. CAPITOL PREFERRED agrees this Consent Order shall be deemed to be executed when the OFFICE has signed and docketed a copy of this Consent Order bearing the signature of CAPITOL PREFERRED, or its authorized representative, under the seal of a notary public, notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically.

WHEREFORE, the agreement between CAPITOL PREFERRED INSURANCE COMPANY, INC., and the FLORIDA OFFICE OF INSURANCE REGULATION, the terms and conditions of which are set forth above, is APPROVED.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 12th day of May 2020.



David Altmaier

David Altmaier, Commissioner
Office of Insurance Regulation

By execution hereof, CAPITOL PREFERRED INSURANCE COMPANY, INC. consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind CAPITOL PREFERRED INSURANCE COMPANY, INC. to the terms and conditions of this Consent Order. The undersigned also certifies that he/she has provided the signature below voluntarily and without coercion, based upon the assistance of legal counsel for CAPITOL PREFERRED INSURANCE COMPANY, INC.

CAPITOL PREFERRED INSURANCE COMPANY, INC.

By: [Signature]

Print Name: JAMES GREGORILLA

Title: PRESIDENT & CEO

Date: 5-11-20

STATE OF FL
COUNTY OF Leon

The foregoing instrument was acknowledged before me by means of physical presence

or online notarization, this 11 day of May 2020, by James Gregorilla
as President & CEO for Capitol Preferred Insurance Co.
(type of authority; e.g., officer, trustee, attorney in fact) (company name)

[Signature]
(Signature of the Notary)

Kristie Mock
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known OR Produced Identification _____
Type of Identification Produced _____
My Commission Expires: 6/8/2022



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FILED

SEP 04 2020

INSURANCE REGULATION

Docketed by: *[Signature]*

OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 269310-20-CO

Application for the Merger of
SOUTHERN FIDELITY INSURANCE COMPANY and
CAPITOL PREFERRED INSURANCE COMPANY, INC., and
for the Direct Acquisition of SOUTHERN FIDELITY
INSURANCE COMPANY by SFPC HOLDING COMPANY,
LLC, and CPIC HOLDING COMPANY, LLC, and for the Direct
Acquisition of NATIONAL CONSUMER TITLE INSURANCE
COMPANY by SOUTHERN FIDELITY INSURANCE
COMPANY

CONSENT ORDER

THIS CAUSE came on for consideration upon the filing with the FLORIDA OFFICE OF INSURANCE REGULATION (“OFFICE”) of multiple proposed corporate changes, including the proposed merger of CAPITOL PREFERRED INSURANCE COMPANY, INC. (“CAPITOL PREFERRED”), with and into SOUTHERN FIDELITY INSURANCE COMPANY (“SOUTHERN FIDELITY”); the direct acquisition of SOUTHERN FIDELITY by SFPC HOLDING COMPANY, LLC (“SFPC HOLDINGS”), and CPIC HOLDING COMPANY, LLC, (“CPIC HOLDINGS”); and the direct acquisition of NATIONAL CONSUMER TITLE INSURANCE COMPANY (“NATIONAL CONSUMER TITLE”) by SOUTHERN FIDELITY, pursuant to Sections 628.451 and 628.461, Florida Statutes. The filings as outlined above will be referred to collectively as the “Application”. Following a complete review of the entire record, and upon consideration thereof, and being otherwise fully advised in the premises, the OFFICE hereby finds as follows:

INTRODUCTION

1. The OFFICE has jurisdiction over the subject matter and the parties herein.
2. SOUTHERN FIDELITY is a domestic property and casualty insurer authorized to transact property and casualty insurance in Florida through a subsisting Certificate of Authority issued by the OFFICE. It is 100% owned by SOUTHERN FIDELITY HOLDING, LLC (“SOUTHERN FIDELITY HOLDINGS”), which is a Florida limited liability company whose membership interest is owned 29.78% by Thomas R. Becnel, an individual, with no other 10% or greater membership interest holders.
3. CAPITOL PREFERRED is a domestic property and casualty insurer authorized to transact property and casualty insurance in Florida through a subsisting Certificate of Authority issued by the OFFICE. It is presently owned 31.98% by CPIC HOLDINGS, a Florida limited liability company, and 55.43% by SFPC HOLDINGS, a Florida limited liability company, with no other 10% or greater shareholders. The membership interest of CPIC HOLDINGS is owned 11.5% by the Thomas R. Becnel Beneficiary Trust, of which Thomas R. Becnel is Trustee, with no other 10% or greater membership interest holders. The membership interest of SFPC HOLDINGS is owned 12.11% by JAG Family Investments, LLC, with no other 10% or greater membership interest holders. JAG Family Investments, LLC, is 100% owned by James and Lisa Graganella, individuals.
4. NATIONAL CONSUMER TITLE is a domestic property and casualty insurer authorized to transact property and casualty insurance in Florida through a subsisting Certificate of Authority issued by the OFFICE. It is owned 34% by SOUTHERN FIDELITY and 66% by CAPITOL PREFERRED, with no other 10% or greater shareholders.

FINANCIAL CONDITION OF INSURERS TO BE MERGED

5. On February 28, 2019, the OFFICE entered into Consent Order No. 241324-19 which approved the merger of Southern Fidelity Property & Casualty, Inc. (“Southern Fidelity P&C”), with and into CAPITOL PREFERRED. CAPITOL PREFERRED was the successor in interest to a book of business formerly written by Southern Fidelity P&C.

6. In its annual financial statements filed with the OFFICE for 2019, CAPITOL PREFERRED reported a net loss of (\$25,737,506). This followed reported net losses in 2017 and 2018 of (\$5,130,111) and (\$17,871,829), respectively.

7. On or about April 9, 2020, CAPITOL PREFERRED requested that the OFFICE approve the cancellation of some 27,500 policies, with 45 days’ notice to policyholders, as permitted by Section 627.4133(2)(b)6., Florida Statutes. In doing so, CAPITOL PREFERRED asked that the OFFICE find that the cancellation was in the best interest of the public or policyholders. In support of this request, CAPITOL PREFERRED stated that the magnitude of losses it had sustained in prior years were not sustainable in the future, and that the cost of reinsuring all of the policies currently in force was prohibitive. CAPITOL PREFERRED provided detailed projections which showed that without the requested cancellation its financial condition would not provide adequate protection for its policyholders. After finding that the cancellation of some policies was in the best interest of the policyholders, the OFFICE entered into Consent Order No. 263348-20-CO on May 12, 2020 (“May 2020 Consent Order”), which disapproved the cancellation of 27,500 policies, approved the cancellation of approximately 23,800 policies in force, as permitted by Section 627.4133(2)(b)6., Florida Statutes, and memorialized additional actions regarding that book of business.

8. CAPITOL PREFERRED submitted a revised business plan to the OFFICE on or about June 1, 2020, as required by the May 2020 Consent Order, which detailed its intended operational improvements to reduce its losses and provide a foundation for sound future operations.

9. As of its June 30, 2020, quarterly statement filed with the OFFICE, CAPITOL PREFERRED reported a net loss year-to-date of (\$20,731,246).

10. As of its June 30, 2020, quarterly statement filed with the OFFICE, SOUTHERN FIDELITY reported a net loss year-to-date of (\$19,328,472). SOUTHERN FIDELITY reported net losses of (\$108,741), (\$1,904,388), and (\$22,617,126) in its annual financial statements filed with the OFFICE for the years 2017, 2018, and 2019, respectively.

MERGER AND RECAPITALIZATION PLAN

11. The Application represents that, on or about August 21, 2020, CAPITOL PREFERRED and SOUTHERN FIDELITY entered into an “Agreement and Plan of Merger” (“Merger Agreement”) whereby, the companies intend to merge into one entity in a stock-for-stock exchange. The Merger Agreement provides that each issued and outstanding share of CAPITOL PREFERRED common stock, excluding shares held by dissenting shareholders and treasury stock, shall be converted into the right to receive shares of SOUTHERN FIDELITY stock in accordance with an Exchange Ratio, as described in the Merger Agreement. Following consummation of the transaction, CAPITOL PREFERRED will cease to exist and SOUTHERN FIDELITY will continue as the surviving entity (“the Merger”). SOUTHERN FIDELITY will also have acquired CAPITOL PREFERRED’s 34% ownership of the issued and outstanding shares of common stock of NATIONAL CONSUMER TITLE, bringing SOUTHERN FIDELITY’s

ownership of NATIONAL CONSUMER TITLE to 100%. As a result of the Merger, SOUTHERN FIDELITY HOLDINGS ownership of SOUTHERN FIDELITY by will be diluted to 68.748% and, by virtue of the stock exchange contemplated in the Merger Agreement, SFPC HOLDINGS will have acquired 18.261% and CPIC HOLDINGS will have acquired 10.534% of the outstanding common stock of SOUTHERN FIDELITY

12. The applicants have submitted detailed financial projections which demonstrate that the Merger of CAPITOL PREFERRED with and into SOUTHERN FIDELITY will provide additional financial resources to support the continued operation of the company and will permit it to meet and maintain the minimum statutory surplus requirements.

13. The Application does not include a request to cancel any of the existing policies of CAPITOL PREFERRED or SOUTHERN FIDELITY.

14. The Application submitted to the OFFICE indicates that SOUTHERN FIDELITY plans to raise additional equity capital in several tranches which will allow it to meet the minimum surplus requirements through December 31, 2020, and beyond. SOUTHERN FIDELITY has retained securities counsel and an outside consultant to guide its efforts to raise new equity capital.

CAPITOL PREFERRED AND SOUTHERN FIDELITY PENDING RATE FILINGS

15. On June 15, 2020, SOUTHERN FIDELITY submitted Filing FCP 20-015170 to the OFFICE. This filing is a “use and file” rate filing with an indicated rate level change of 40.0% calculated by SOUTHERN FIDELITY for its SFIC Voluntary Homeowners program. The filing requested and implemented a 31.1% rate increase, effective August 1, 2020. This use and file rate increase was the subject of a public rate hearing held by the OFFICE on August 7, 2020. The data and documentation provided by SOUTHERN FIDELITY in connection with filing FCP 20-

015170 support the proposed overall statewide rate increase of 31.1%. As such, the filing is hereby APPROVED as filed.

16. On June 15, 2020, CAPITOL PREFERRED submitted Filing FCP 20-015219 to the OFFICE. This filing is a “use and file” rate filing with an indicated rate level change of 34.6% calculated by CAPITOL PREFERRED for its CPIC Voluntary Homeowners program. The filing requested and implemented a 26.2% rate increase, effective August 1, 2020. This use and file rate increase was the subject of a public rate hearing held by the OFFICE on August 7, 2020. The data and documentation provided by CAPITOL PREFERRED in connection with filing FCP 20-015219 support the proposed overall statewide rate increase of 26.2%. As such, the filing is hereby APPROVED as filed.

17. On August 11, 2020, SOUTHERN FIDELITY submitted Filing FCP 20-018896 to the OFFICE. This filing is a “use and file” rate filing and proposes to implement a preferred contractor program for a 5% premium discount. The endorsement for the preferred contractor program will be automatically applied to new and renewal policies on or after October 1, 2020, unless the policyholder has opted out of such endorsement. The purpose of this endorsement is to better manage and mitigate the severity of future losses. The filing is hereby APPROVED.

18. On August 11, 2020, CAPITOL PREFERRED submitted Filing FCP 20-018902 to the OFFICE. This filing is a “use and file” rate filing and proposes to implement a preferred contractor program for a 5% discount. The endorsement for the preferred contractor program will be automatically applied to new and renewal policies on or after October 1, 2020, unless the policyholder has opted out of such endorsement. The purpose of the endorsement is to better manage and mitigate the severity of future losses. The filing is hereby APPROVED.

REPRESENTATIONS OF THE APPLICANTS

19. SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, and NATIONAL CONSUMER TITLE have made material representations that, except as disclosed in the Application, none of their officers, directors, 10% or greater shareholders, or 10% or greater membership interest holders have been found guilty of, or have pleaded guilty or nolo contendere to, a felony or misdemeanor, other than a civil traffic offense.

20. SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, and NATIONAL CONSUMER TITLE have further represented that they have submitted complete background information on all the individuals referenced in paragraph 19 above. If said information has not been provided to the OFFICE, or if the sources utilized by the OFFICE in its investigation process reveal that the representations made in paragraph 19 above are inaccurate, said entity shall, within 30 days of receipt of notification from the OFFICE, undertake such remedial actions with regard to the individual at issue as directed by the OFFICE. Such actions may include removing the individual as officer or director of said entity and replacing them with a person or persons acceptable to the OFFICE, as well the entity requiring that the individual 10% or greater shareholder or membership interest holder divest their ownership or membership interest to below 10%.

21. If, upon receipt of notification from the OFFICE pursuant to paragraph 20 above, SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, or NATIONAL CONSUMER TITLE does not timely take the required corrective action, SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, and NATIONAL CONSUMER TITLE agree that such failure to act would constitute an immediate serious danger to the public and the OFFICE may immediately suspend, revoke, or take other administrative action as it deems appropriate upon the

Certificates of Authority of SOUTHERN FIDELITY or NATIONAL CONSUMER TITLE without further proceedings, pursuant to Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

22. SOUTHERN FIDELITY, SFPC HOLDINGS, and CPIC HOLDINGS represent that, except as disclosed in the Application, there are no present plans or proposals to make any substantive changes to the Plans of Operation of SOUTHERN FIDELITY or NATIONAL CONSUMER TITLE, including liquidating them, selling any of their assets (except for transactions such as investment portfolio transactions in the ordinary course of business), merging or consolidating them with any person or persons, or making any other major change in their business operations.

23. All parties to this Consent Order agree that this Consent Order shall be deemed null and void if the Merger is not completed, or required regulatory approvals are not obtained, within 60 days of execution of this Consent Order.

COMPANY REQUIREMENTS AS A CONDITION OF APPROVAL

24. Within 10 business days after the Merger is completed, SOUTHERN FIDELITY shall submit, or cause to be submitted, to the OFFICE all documents evidencing completion of the Merger and shall return the Certificate of Authority of CAPITOL PREFERRED to the OFFICE. Further, SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, or NATIONAL CONSUMER TITLE shall notify the OFFICE within 3 business days of a final determination that the Merger will not occur.

25. SOUTHERN FIDELITY and NATIONAL CONSUMER TITLE shall, no later than 15 days after the month in which the Merger is completed, file updates to their Holding

Company Registration Statements, as required by Section 628.801, Florida Statutes, and Rule 690-143.046, Florida Administrative Code.

26. Any material changes to the information submitted in the Application filing shall be reported to the OFFICE for its review during the pendency of the closing of the Merger. SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, and NATIONAL CONSUMER TITLE acknowledge that if the OFFICE determines that any of these reported changes would have a material negative impact to the financial condition or operation of SOUTHERN FIDELITY or NATIONAL CONSUMER TITLE, the OFFICE may rescind its approval as granted in this Consent Order by written notice to SOUTHERN FIDELITY, SFPC HOLDINGS, or CPIC HOLDINGS.

27. Pursuant to Sections 628.461(3)(f)-(g), Florida Statutes, SFPC HOLDINGS, CPIC HOLDINGS, or any other party meeting the definition of “ultimate controlling person” as defined in Section 628.801(2), Florida Statutes, shall file with the OFFICE the Enterprise Risk Report required by Section 628.801(2), Florida Statutes, and any and all additional information necessary to evaluate the enterprise risk of SOUTHERN FIDELITY and its affiliates.

28. Pursuant to Section 624.10(3), Florida Statutes, and upon completion of the Merger, SOUTHERN FIDELITY HOLDINGS, SFPC HOLDINGS, and CPIC HOLDINGS will be controlling entities and, as such, shall comply with Section 628.461(12)(b), Florida Statutes, should SOUTHERN FIDELITY HOLDINGS, SFPC HOLDINGS, or CPIC HOLDINGS choose to divest their controlling interest in SOUTHERN FIDELITY or NATIONAL CONSUMER TITLE.

29. SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS

acknowledge that the OFFICE's approval of the Merger is predicated upon SOUTHERN FIDELITY's representations that it will, in good faith, proceed with its intended capital raises as described in the Application. The OFFICE understands that the Merger is the next step in a multi-step process that is intended to put SOUTHERN FIDELITY in a more financially sound position. The approval of the Merger, as represented to the OFFICE, without finalized documentation of additional capital to be provided to SOUTHERN FIDELITY is a good-faith effort to assist SOUTHERN FIDELITY to enhance its solvency and protect its policyholders.

30. SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS, agree that SOUTHERN FIDELITY shall have completed the first step in its capital raise plans, as represented in the Application, and shall have demonstrated such to the OFFICE by infusion of capital in the amount represented as the first tranche by October 15, 2020, when its third quarter 2020 financial statement is filed with the OFFICE. If SOUTHERN FIDELITY cannot or will not be able to complete this first step as represented in the Application by October 15, 2020, SOUTHERN FIDELITY shall notify the OFFICE at the earliest possible time of its failure or inability to do so, in order that the OFFICE may be advised and take any action it deems appropriate under the circumstances.

31. SOUTHERN FIDELITY, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS agree that SOUTHERN FIDELITY shall have completed the remaining steps in its capital raise plans, as represented in the Application, and shall have demonstrated such to the OFFICE by infusion of capital in the amount represented as the remaining tranches by December 31, 2020. If SOUTHERN FIDELITY cannot or will not be able to complete the culmination of its capital raises as represented in the Application by December 31, 2020, SOUTHERN FIDELITY shall notify the OFFICE at the earliest possible time of its failure or

inability to do so, in order that the OFFICE may be advised and take any action it deems appropriate under the circumstances.

32. Within 10 business days of execution of this Consent Order, SOUTHERN FIDELITY shall amend all managing general agency contracts to which it is a party to include a provision limiting the compensation to the managing general agent to no more than 26% of direct written premium, for a period of 24 months, without the written approval of the OFFICE. At the expiration of the 24-month period the OFFICE may approve a proposed change to the compensation to the managing general agent if it finds the proposed change is fair and reasonable. This limitation will ensure that the maximum amount of benefit from the increased rates approved as a part of this Consent Order will be retained by SOUTHERN FIDELITY to pay losses and expenses generated on its own book of business as well as the book of business formerly written by CAPITOL PREFERRED, which it will assume by virtue of the Merger.

33. By no later than January 15, 2021, SOUTHERN FIDELITY will deliver to the OFFICE an actuarial review prepared by a member of the Casualty Actuarial Society of its homeowners' programs. Such review must consist of an examination of the rating methodology and factors utilized in SOUTHERN FIDELITY's homeowners' programs, as well as that of competitors, to determine areas of improvement for SOUTHERN FIDELITY to avoid adverse selection and to improve future loss ratios. Such areas of improvement may include the use of additional rating variables or methodologies, as well as revisions to rating factors, territories, or other elements of the rating plan. The review will prioritize the areas of improvement and provide recommendations to SOUTHERN FIDELITY for revisions to be made in its next rate filing, as well as a strategy for revisions in subsequent filings, if needed.

34. By no later than April 1, 2021, SOUTHERN FIDELITY will submit to the OFFICE a “file and use” rate filing that combines the experience of all voluntary homeowners programs into one program and updates the rating methodology and factors as recommended in the actuarial review referenced in paragraph 33 above. The effective date for such filing may be no earlier than August 1, 2021.

35. By no later than June 1, 2021, SOUTHERN FIDELITY will submit to the OFFICE a “file and use” rate filing that combines the experience of all takeout homeowners programs into one program and updates the rating methodology and factors as recommended in the actuarial review referenced in paragraph 33 above. The effective date for such filing may be no earlier than October 1, 2021.

GENERAL TERMS

36. SOUTHERN FIDELITY has applied for and, subject to the present and continuing satisfaction of the requirements, terms, and conditions established herein, has satisfactorily met all the conditions precedent to the granting of approval by the OFFICE of the proposed merger with CAPITOL PREFERRED, which will also result in the acquisition of 10% or more of the issued and outstanding voting securities of NATIONAL CONSUMER TITLE.

37. SFPC HOLDINGS and CPIC HOLDINGS have applied for and, subject to the present and continuing satisfaction of the requirements, terms, and conditions established herein, have satisfactorily met all the conditions precedent to the granting of approval by the OFFICE of the proposed acquisition of 10% or more of the issued and outstanding voting securities of SOUTHERN FIDELITY.

38. Any prior orders, consent orders, or corrective action plans that SOUTHERN FIDELITY, CAPITOL PREFERRED, or NATIONAL CONSUMER TITLE have entered into with the OFFICE prior to the execution of this Consent Order shall apply and remain in full force and effect for SOUTHERN FIDELITY, CAPITOL PREFERRED, or NATIONAL CONSUMER TITLE, except where provisions of such orders, consent orders, or corrective action plans have expired; have been superseded by subsequent orders, consent orders, or corrective action plans; or are inconsistent with this Consent Order.

39. SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS affirm and represent that all information, explanations, representations, statements, and documents provided to the OFFICE in connection with this Application, including all attachments and supplements thereto, are true and correct and fully describe all transactions, agreements, ownership structures, understandings, and control with regard to the merger of SOUTHERN FIDELITY and CAPITOL PREFERRED, and the resulting acquisition and future operations of SOUTHERN FIDELITY and NATIONAL CONSUMER TITLE. SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS further agree and affirm that said information, explanations, representations, statements, and documents, including all attachments and supplements thereto, are material to the issuance of this Consent Order and have been relied upon by the OFFICE in its determination to enter into this Consent Order.

40. SOUTHERN FIDELITY or NATIONAL CONSUMER TITLE shall report to the OFFICE, Property & Casualty Financial Oversight, any time that either of them is named as a party defendant in a class action lawsuit within 15 days after the class is certified. SOUTHERN

FIDELITY or NATIONAL CONSUMER TITLE shall include a copy of the complaint at the time the class action lawsuit is reported to the OFFICE.

41. SOUTHERN FIDELITY and NATIONAL CONSUMER TITLE shall each maintain an information security program for the security and protection of confidential and proprietary information under their control that complies with all applicable laws and regulations regarding information security. SOUTHERN FIDELITY and NATIONAL CONSUMER TITLE agree that they shall continually monitor and enhance their information security programs in order to mitigate data security breaches. SOUTHERN FIDELITY and NATIONAL CONSUMER TITLE further agree that they shall notify the OFFICE within 5 business days of identifying a data breach.

42. Executive Order 13224 prohibits any transactions by U.S. persons involving the blocked assets and interests of terrorists and terrorist support organizations. SOUTHERN FIDELITY and NATIONAL CONSUMER TITLE shall maintain and adhere to procedures necessary to detect and prevent prohibited transactions with those individuals and entities, which have been identified at the Treasury Department's Office of Foreign Assets Control website, <http://www.treas.gov/ofac>.

43. Within 60 days of the execution of this Consent Order, SOUTHERN FIDELITY, shall submit, or cause to be submitted, to the OFFICE a certification evidencing compliance with all the requirements of this Consent Order. Any exceptions shall be so noted and contained in the certification. Exceptions noted in the certification shall also include a timeline defining when the outstanding requirements of the Consent Order will be completed. Said certification shall be submitted to the OFFICE via electronic mail and directed to the attention of the Assistant General Counsel representing the OFFICE in this matter and as named in this Consent Order.

44. Any deadlines, reporting requirements, other provisions, or requirements set forth in this Consent Order may be altered or terminated by written approval of the OFFICE. Such written approval by the OFFICE is subject to statutory or administrative regulation limitations.

45. SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS expressly waive a hearing in this matter, the making of findings of fact and conclusions of law by the OFFICE, and all further and other proceedings herein to which they may be entitled by law or rules of the OFFICE. SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS hereby knowingly and voluntarily waive all rights to challenge or to contest this Consent Order in any forum available to them, now or in the future, including the right to any administrative proceeding, state or federal court action, or any appeal.

46. SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS affirm that all requirements set forth herein are material to the issuance of this Consent Order.

47. SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS agree that, upon execution of this Consent Order, failure to adhere to one or more of the terms and conditions contained herein may result, without further proceedings, in the OFFICE suspending, revoking, or taking other administrative action as it deems appropriate upon the Certificates of Authority of SOUTHERN FIDELITY or NATIONAL CONSUMER TITLE in this state in accordance with Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

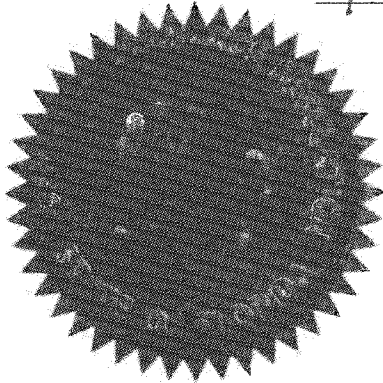
48. Each party to this action shall bear its own costs and fees.

49. The parties agree that this Consent Order shall be deemed to be executed when the OFFICE has signed and docketed a copy of this Consent Order bearing the signatures of the authorized representatives of SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS, notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically. Further, SOUTHERN FIDELITY, CAPITOL PREFERRED, NATIONAL CONSUMER TITLE, SFPC HOLDINGS, CPIC HOLDINGS, and SOUTHERN FIDELITY HOLDINGS agree that the signatures of their authorized representatives as affixed to this Consent Order shall be under the seal of Notary Public.

WHEREFORE, subject to the terms and conditions set forth above, the Application for the proposed merger of CAPITOL PREFERRED INSURANCE COMPANY, INC., with and into SOUTHERN FIDELITY INSURANCE COMPANY, pursuant to Section 628.451, Florida Statutes, and the direct acquisition of 10% or more of the issued and outstanding voting securities of SOUTHERN FIDELITY INSURANCE COMPANY by SFPC HOLDING COMPANY, LLC, and CPIC HOLDING COMPANY, LLC, and the direct acquisition of 10% or more of the issued and outstanding voting securities of NATIONAL CONSUMER TITLE INSURANCE COMPANY by SOUTHERN FIDELITY INSURANCE COMPANY, pursuant to Section 628.461, Florida Statutes, is APPROVED.

All terms and conditions contained herein are hereby ORDERED,

DONE and ORDERED this 4 day of September, 2020.



David Altmaier

David Altmaier, Commissioner
Office of Insurance Regulation

By execution hereof, CAPITOL PREFERRED INSURANCE COMPANY, INC., consents to entry of this Consent Order, agrees without reservation to all the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that they have the authority to bind CAPITOL PREFERRED INSURANCE COMPANY, INC., to the terms and conditions of this Consent Order.

CAPITOL PREFERRED INSURANCE COMPANY, INC.

By: James A. Groganella

Print Name: James A. Groganella

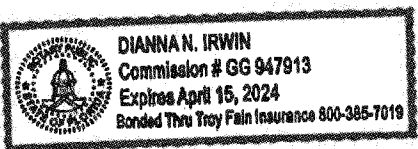
Title: President

Date: 9-9-2020

STATE OF Florida

COUNTY OF Leon

The foregoing instrument was acknowledged before me by means of physical presence or online notarization, this 4th day of Sept 2020, by James Groganella (name of person) as President (type of authority; e.g., officer, trustee, attorney in fact) for Capitol Preferred Insurance Co Inc (company name)



Dianna N. Irwin
(Signature of the Notary)

Dianna N. Irwin
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known OR Produced Identification

Type of Identification Produced _____

My Commission Expires: 4/16/2024