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ATTORNEY GENERAL OF NEW JERSEY  
Attorney for Plaintiff,  
Commissioner of Banking and Insurance  
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By: Eleanor Heck  
Deputy Attorney General  
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**RECEIVED**

FEB 11 2009

CHAMBERS OF  
MARIA MARINARI SYPEK  
J.S.C.

SUPERIOR COURT OF NEW JERSEY  
CHANCERY DIVISION-MERCER COUNTY  
DOCKET NO.

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STEVEN M. GOLDMAN, )  
COMMISSIONER OF THE )  
DEPARTMENT OF BANKING AND )  
INSURANCE OF NEW JERSEY, )  
 )  
Plaintiff, )  
 )  
v. )  
 )  
CONSUMER FIRST INSURANCE )  
COMPANY, )  
 )  
Defendant. )

---

Civil Action

CERTIFICATION OF  
RAYMOND K. CONOVER

RAYMOND K. CONOVER, of full age, hereby certifies and  
says:

1. I am the Assistant Commissioner in the Office of  
Solvency Regulation for the New Jersey Department of Banking and  
Insurance (the "Department"). My responsibilities include  
monitoring and overseeing the financial condition of all insurance  
entities transacting business in New Jersey. I make this  
certification to explain the business of Consumer First Insurance

Company ("Consumer First"), and the financial reasons that support placing Consumer First into rehabilitation.

2. Consumer First is a New Jersey domiciled property/casualty insurer licensed to transact insurance business in New Jersey since January 2, 2002. Consumer First writes only private passenger automobile insurance coverage, and only in New Jersey. Consumer First's book of business is comprised of policies written through producers.

3. Consumer First had approximately 6,825 in-force policies and approximately 1,220 open claims as of November 30, 2008.

4. Starting in 2003, Consumer First failed to respond to numerous requests for information from the Department, raising the concern that the continued unsupervised operation of Consumer First would be hazardous to the policyholders, creditors and/or public.

5. Pursuant to Department of Banking and Insurance Order No. A04-123, Consumer First has been under consensual administrative supervision since April 27, 2004. Order No. A04-123 also prohibited Consumer First from writing any further policies. A true and complete copy of Order No. A04-123 is attached hereto as Exhibit A.

6. Pursuant to Department of Banking and Insurance Order No. A04-146 (October 1, 2004), amending Order A04-123,

Consumer First was permitted to resume writing policies. A true and complete copy of Order No. A04-146 is attached hereto as Exhibit B.

7. Since then, the financial condition of Consumer First has continued to deteriorate. Consumer First is operating in a hazardous financial condition as demonstrated by the following:

- a. Consumer First reported capital and surplus of \$2,188,909 as of November 30, 2008, which number is \$111,091 below the minimum capital and surplus of \$2.3 million as required by N.J.S.A. 17:17-1b, -1e, and -6;
- b. Consumer First's Gross Premiums Written to Policyholders' Surplus ratio is 5.94 to 1 as of November 30, 2008, which is above the ratio of 5.0 to 1 required by Confidential Order A04-146, ¶ 4;
- c. Consumer First's Net Premiums Written to Policyholders' Surplus ratio is 2.99 to 1 as of November 30, 2008, which is above the ratio of 2.5 to 1 required by Confidential Order A04-146, ¶ 4;
- d. Consumer First failed four (4) Insurance Regulatory Information System ("IRIS") tests, established by the National Association of Insurance Commissioners ("NAIC"), as of December 31, 2007 (See N.J.A.C. 11:2-27.3(a)2), namely:
  - (a) Surplus Aid to Policyholders' Surplus result was 15%. (An unusual value is 15% or greater. The existence of significant amounts of surplus aid (usually through reinsurance treaties) usually indicates that Policyholders' Surplus is inadequate.);
  - (b) Two Year Overall Operating result was 130%. (An unusual value is 100% or greater. The two-year overall operating

ratio is a measure of the profitability of an insurer. A ratio above 100% indicates an operating loss.);

- (c) Net Change in Adjusted Policyholders' Surplus result was a negative 47%. (An unusual value is less than 10%. This ratio measures the improvement or deterioration in the insurer's financial condition during the year based on operation results.); and
- (d) Liabilities to Liquid Assets result was 196%. (An unusual value is 105% or greater.) This ratio is a measure of the insurer's ability to meet its financial demands, such as claim payments, payroll and benefits, utility payments and loan payments See also N.J.A.C. 11:2-27.3(a)15;
- e. Consumer First reported a Net Operating Loss as of September 30, 2008 (the last filed quarterly financial statement) greater than 50% of Policyholders' Surplus in excess of the minimum capital and surplus requirement. As of September 30, 2008, Consumer First's minimum capital and surplus was \$2.3 million. Consumer First reported a capital and surplus of \$2,530,935, which is \$230,935 above or in excess of the minimum capital and surplus requirement. Fifty percent of \$230,935 is \$115,468. Consumer First reported a Net Operating Loss of negative \$789,439, which is greater than 50% of Policyholders' Surplus in excess of the minimum capital and surplus requirement. (See N.J.A.C. 11:2-27.3(a)6);
- f. Consumer First's liquidity ratio as of September 30, 2008 was 340.8%. (An unusual value is 105% or greater). Consumer First's liquidity ratio has exceeded the 105% benchmark since June 30, 2006. See N.J.A.C. 11:2-27.3(a) 2 and -27.3(a)15); and
- g. Consumer First's Risk Based Capital ("RBC") ratio as of December 31, 2007 was 2.247 and its combined ratio was 150.1%. These numbers

resulted in a RBC Company Action Level Event pursuant to N.J.A.C. 11:2-39 based on the trend test since the RBC was between 2.0 and 3.0 and the combined ratio was greater than 120%. This results in a finding of fact or circumstance that indicates that Consumer First is in a hazardous financial condition. (See N.J.A.C. 11:2-27.3(a)29).

8. Consumer First has been attempting, without success, to secure a commitment on obtaining additional capital for surplus. In a letter dated January 5, 2009, Consumer First asked the Department to extend a deadline for obtaining the capital until January 23, 2009. Consumer First stated that if it was unable to find the financing by that time, it would consent to being placed into voluntary rehabilitation. A true copy of Consumer First's letter is attached hereto as Exhibit C.

9. Consumer First has been unable to obtain the requisite capital. Pursuant to Department of Banking and Insurance Order No. A09-101, the Commissioner has ordered Consumer First to cease writing any new and renewal business on or after 5 p.m., January 23, 2009. A true and complete copy of Order No. A09-101 is attached hereto as Exhibit D.

10. It is essential that policyholder services and claims administration continue without interruption. In addition, it is essential that Consumer First's main assets be preserved against waste during the interim period between the filing of the application for rehabilitation and the entry of the rehabilitation order.

11. Accordingly, the Commissioner has determined that Consumer First must be placed in voluntary rehabilitation.

I certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.



---

Raymond K. Conover  
Assistant Commissioner

Dated: February \_\_, 2009

**EXHIBIT A**

**CONFIDENTIAL**

Confidential Order No. A04-123

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE  
DIVISION OF INSURANCE

IN THE MATTER OF CONSUMER )  
FIRST INSURANCE COMPANY ) ADMINISTRATIVE DECISION AND  
CONFIDENTIAL ORDER

THIS matter being opened by the Commissioner of Banking and Insurance ("Commissioner") of the New Jersey Department of Banking and Insurance, Division of Insurance ("Department") pursuant to the authority contained in N.J.S.A. 17:17-15, N.J.S.A. 17:23-1 et seq., N.J.S.A. 17:23-20 et seq., and N.J.S.A. 17:51A-1 et seq. and all powers expressed or implied therein; and

IT APPEARING that Consumer First Insurance Company ("Consumer First" or the "Company") is a New Jersey domiciled property and casualty insurer licensed to transact insurance business in New Jersey since January 2, 2002, with its statutory address at 1144 Clifton Avenue, Clifton, New Jersey; and

IT FURTHER APPEARING that, as of December 31, 2003, Consumer First had 9,944 private passenger automobile insurance policies in-force in New Jersey; and

IT FURTHER APPEARING that N.J.S.A. 17:51A-1 et seq., the Administrative Supervision Act (the "Act"), sets forth the authority of the Commissioner to subject all domestic insurers to administrative supervision; and



IT FURTHER APPEARING that the Act applies to Consumer First since the Company is a New Jersey domiciled domestic insurer authorized to transact the business of insurance in New Jersey pursuant to Title 17 of the Revised Statutes; and

IT FURTHER APPEARING that pursuant to N.J.S.A. 17:51A-3a(3), an insurer may be subject to administrative supervision by the Commissioner if the insurer has failed to comply with the applicable provisions of the insurance statutes, and any administrative rules promulgated thereunder; and

IT FURTHER APPEARING that Consumer First has been unresponsive and untimely in responding to requests for information by the Department concerning towing and labor charges and in complying with Department Subpoena No. 04-15 as set forth below in more detail:

- (1) On December 2, 2003, the Department contacted the Company and requested that certain information concerning towing and labor charges being charged by the Company to its insureds during 2003 be provided to the Department by December 17, 2003;
- (2) On December 17, 2003, the Company contacted the Department and asked for an extension until December 23, 2003 to provide the requested information to the Department;
- (3) On January 5, 2004, the Department sent a follow up e-mail to the Company indicating that the Department had not received the requested information concerning towing and labor charges that the Company agreed to provide the Department by December 23, 2003;

- (4) On January 6, 2004, the Company responded that it was having difficulty obtaining the requested information from its vendor, Computer Sciences Corporation ("CSC"). The Company stated it would have the requested information to the Department by the morning of January 7, 2004;
- (5) On January 13, 2004, the Department again contacted the Company by e-mail indicating that the requested information had not been received by the Department and expressing disappointment with the performance of the Company;
- (6) On January 21, 2004, the Company responded by e-mail that it would provide the requested information to the Department by the following week;
- (7) On January 29, 2004, the Department again contacted the Company by e-mail indicating that the requested information still had not been received by the Department;
- (8) On January 30, 2004, the Company responded that CSC would credit each existing or renewed policy for the improper towing and labor charge and the Company would issue a check to the insured for any policy that was canceled. The Company further stated that the requested information would be ready on February 4, 2004. To date, the Department has not received the requested information;
- (9) Pursuant to Department Subpoena No. 04-15 dated February 13, 2004, the Company was directed to produce the requested information on February 24, 2004 at 11:00 a.m. at the Department;

(10) On February 23, 2004, the Company requested a postponement until the following week to produce the requested information. The Department postponed the production of documents to March 8, 2004;

(11) On March 8, 2004, the Company again requested another postponement. On March 12, 2004, the Department granted a postponement until March 26, 2004;

(12) On March 26, 2004, the Company did not appear at the Department nor did it contact the Department.

(13) To date, the company has not complied with the said subpoena; and

IT FURTHER APPEARING that Consumer First has been unresponsive and untimely in responding to requests for information by the Department concerning a limited scope examination as set forth below in more detail:

(1) On January 15, 2004, questionnaires seeking information for a limited scope examination were sent to the Company by the Department. Responses to those questionnaires were due from the company by on or about January 29, 2004.

(2) On January 29, 2004, the Company requested and the Department agreed to an extension of three weeks to complete the questionnaires for the limited scope examination;

(3) On March 2, 2004, the Department followed up its request for information from the Company by e-mail and telephone call. No response was received from Company; and

(4) On March 9, 2004, the Department again followed up its request for information from the Company. Again, no response was received from the Company.

(5) To date, the company has made no response to the said requests; and

IT FURTHER APPEARING that Consumer First has been unresponsive and untimely in responding to requests for information by the Department concerning changes in its reinsurance agreement as set forth below in more detail:

(1) On July 22, 2003, the Department sent an e-mail to the Company requesting certain changes in its 80 percent Quota Share reinsurance agreement with Swiss Re. The basis for those requests was the Department's determination that the agreement in its present form did not provide adequate assurance of ongoing reinsurance coverage and, consequently, subjected the company's policyholders to an unacceptable level of risk; and

(2) On August 29, 2003, a follow up e-mail was sent to the Company by the Department;

(3) On January 9, 2004, another follow up e-mail and telephone call were made to the Company by the Department;

(4) On January 21, 2004, the Company indicated that a response concerning the reinsurance agreement with Swiss Re would be ready the following week. No response from the Company was received the following week; and

- (5) On February 27, 2004, the Department sent another follow up e-mail to the Company. To date, no response concerning the Swiss Re reinsurance agreement has been received by the Department.

IT FURTHER APPEARING that Consumer First has been unresponsive and untimely in responding to requests for information by the Department concerning inquiries about the Company's 2003 second quarter financial statements submitted to the Department as set forth below in more detail:

- (1) On October 29, 2003, the Department sent a letter to the Company with inquiries concerning information contained in the Company's 2003 second quarter financial statements submitted to the Department. The Company had 15 days to respond to this inquiry. No response from the Company was received within the 15 day period;
- (2) On December 31, 2003, a follow up e-mail was sent to the Company by the Department; and
- (3) On February 9, 2004, the Department made a telephone call and sent a follow up e-mail to the Company. The Company submitted a complete response, including attachments, on February 10, 2004; and

IT FURTHER APPEARING that the information that the Department has reviewed with respect to the operations of the Company indicates that in 2003 it wrote a significantly higher volume of business than it had projected it would write and that its liquidity ratio is sufficiently high so as to warrant closer scrutiny of the Company's key financial data; and

IT FURTHER APPEARING that, as set forth in detail above, Consumer First has failed to respond to several Department inquiries and requests in a thorough and timely manner, in violation of N.J.S.A. 17:23-1 et seq. and N.J.S.A. 17:23-20 et seq.; and

IT FURTHER APPEARING that the Company's said failures to respond to the Department's requests and demands for information raise the concern that the continued unsupervised operation of Consumer First would be hazardous to its policyholders, beneficiaries, creditors and/or the public, and that the most effective means to protect its policyholders, beneficiaries and the public is to appoint an Administrative Supervisor to oversee the operations of Consumer First, and

IT FURTHER APPEARING that, for the reasons set forth above, the Commissioner is, pursuant to N.J.S.A. 17:51A-1 et seq., placing Consumer First under confidential administrative supervision; and

IT FURTHER APPEARING that the Act sets forth the authority of the Commissioner regarding domestic insurers to provide appropriate regulatory oversight, consistent with her responsibilities as regulator, in order to protect the interests of Consumer First, its policyholders, beneficiaries, creditors and/or the public; and

IT FURTHER APPEARING that it is appropriate and consistent with the Act to set forth in additional detail the framework for the regulatory oversight of Consumer First by the Department,

THEREFORE, IT IS on this 27<sup>th</sup> day of April, 2004

ORDERED that:

1. Effective this date, Consumer First shall be placed under Administrative Supervision pursuant to N.J.S.A. 17:51A-1 et seq.

2. Effective immediately, Consumer First shall cease writing new business on any unbound application dated subsequent to the date of this order.
3. Consumer First shall immediately notify all of its agents that they are to cease soliciting for new business for Consumer First and cease accepting applications for new business dated subsequent to the date of this order.
4. Consumer First shall provide thorough responses to the Department's previous requests and demands within 15 days of the date of this order in accordance with N.J.S.A. 17:23-1 et seq.
5. Pursuant to N.J.S.A. 17:51A-5, the Commissioner shall appoint an Administrative Supervisor. The Administrative Supervisor so appointed shall be compensated by Consumer First, as determined and approved by the Commissioner. The Administrative Supervisor shall, among other things, oversee the operations of Consumer First, perform audits of the Company's respective operations, ensure compliance with the terms of this Order and perform such other acts as the Commissioner deems necessary to protect the interests of Consumer First, its policyholders, beneficiaries, creditors and/or the public. The appointment of an Administrative Supervisor shall not preclude the Commissioner from performing examinations in accordance with the provisions of N.J.S.A. 17:23-20 et seq.
6. All documents and records in the possession of Consumer First, its agents and/or representatives shall not be moved, removed, transferred, modified, amended, disposed of, or altered without the prior approval of the Commissioner, except that documents and records may continue to be sent to archives and/or

may be modified in a manner consistent with Consumer First's usual and customary business practices, and with all applicable laws and rules.

7. Consumer First shall provide to the Commissioner or her representatives access on demand without notice to any and all materials, records, documents or information of the Company and shall fully and completely cooperate with all requests of the Commissioner or her representatives for such materials, records, documents or information, including meeting any reasonable timeframes established by the Commissioner or her representatives for the provision of any requested materials, records, documents or information. For the purposes of this Order, materials, records, documents or information shall include, but not be limited to, those recorded or stored in paper or electronic form.
8. Consumer First shall, within ten (10) days from the date of this Order, provide the Commissioner or her representatives with the location and description of, and access to, all assets of any kind held by, or on behalf of, Consumer First. For the purposes of this Order, assets shall include those items owned or leased.
9. In accordance with the provisions of N.J.S.A. 17:51A-5, Consumer First shall not, without the prior approval of the Commissioner or her representatives:
  - a. Dispose of, convey or otherwise encumber or pledge any of its assets, including its stock, or its business in force;
  - b. Withdraw funds or securities from any of its banking and/or other financial accounts, except in the ordinary course of business and in accordance with this Order (i.e. payment of claims, payroll, rent and other such normal operating expenses);
  - c. Lend or use as collateral or otherwise encumber or pledge any of its funds and/or assets;



- d. Invest any of its funds other than in accordance with investment guidelines approved by the Company's Board of Directors, which investment guidelines shall first have been submitted to the Department for review;
  - e. Transfer any of its property;
  - f. Borrow funds, incur any new debt, obligation or other such liability or enter into any new contract or renew existing contracts or obligations
  - g. Commit to any contingent obligations, including, but not limited to, guarantees, corporate guarantees or off-balance sheet transactions;
  - h. Perform any intercompany transaction between Consumer First and its affiliated companies that is inconsistent with or outside the scope of any intercompany agreements not disapproved by the Department;
  - i. Pay claims on behalf of insiders. For purposes of this paragraph, the term insiders shall include, but not be limited to, claimants of Consumer First who are also employees, officers, directors or Board members of Consumer First;
  - j. Merge or consolidate with another company;
  - k. Enter into any new reinsurance contract or treaty;
  - l. Make any change in senior management or supervisory staffing positions; and
  - m. Increase salaries or benefits of officers, directors, or employees, or pay bonuses, stockholder dividends or make other payments, except normal merit increases for employees in accordance with the Company's established guidelines.
10. Consumer First shall provide a copy of this Order to all directors and officers of the Company within 24 hours of its receipt of this Order.
11. Consumer First shall immediately comply with all terms of this Order unless otherwise specified.
12. This Order and any proceedings related to it are confidential unless the Commissioner determines that it is in the best interest of the public, Consumer

First, its policyholders, beneficiaries and/or creditors to open these proceedings. Nothing in this paragraph shall prohibit the sharing of confidential information as provided by N.J.S.A. 17:51A-4.

13. If any provision of this Order or the application thereof is for any reason held to be invalid, the remainder of this Order and the application thereof to other persons or circumstances shall not be affected thereby.
14. The Commissioner may, from time to time, modify this Order, upon written notification to Consumer First, to address matters necessary for the benefit of Consumer First, its policyholders, beneficiaries, creditors and/or the public. Nothing in this Order shall prevent the Commissioner from taking any action deemed necessary by the Commissioner with respect to Consumer First pursuant to Paragraph 15 of this Order, or with respect to any affiliate of Consumer First as to matters over which the Commissioner has regulatory jurisdiction.
15. The Commissioner reserves the right to, at any time subsequent to the date of this Order, issue additional Orders and make applications for additional and different relief related to this Order or the Company if the Commissioner determines that any such Order or relief is necessary in accordance with Title 17 of the Revised Statutes, including, but not limited to, the imposition of fines for failing to comply with the terms of any subpoena issued by the Department.

If the Company objects to the actions ordered to be taken as set forth herein, Consumer First may request a hearing before the Department within 10 days from the

date of receipt of this order. The request for hearing shall be in writing and shall

include:

- a. The name, address and daytime telephone number of a contact person familiar with this matter;
- b. A copy of this Order;
- c. A statement requesting a hearing; and
- d. A concise statement describing the basis upon which the Company believes that any material factual assertion contained herein is erroneous.

Within 30 days of my receipt of a properly completed request for a hearing, I shall determine whether this matter constitutes a contested case, pursuant to the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq. If I find that there are no genuine issues of material fact in dispute and that this matter may be decided on the documents filed, I shall notify Consumer First in writing as to the final disposition of this matter. If I find that this matter constitutes a contested case, I may transmit this matter to the Office of Administrative Law for a hearing consistent with the Uniform Administrative Procedures Rules, N.J.A.C. 1:1, et seq.

  
\_\_\_\_\_  
Holly C. Bakke, Commissioner

**EXHIBIT B**

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF CONSUMER)  
FIRST INSURANCE COMPANY ) AMENDED CONFIDENTIAL ORDER

This matter has been opened by the Commissioner of Banking and Insurance ("Commissioner") pursuant to the authority set forth in N.J.S.A. 17:17-15, 17:23-1 et seq., 17:23-20 et seq., and 17:51A-1 et seq., and all powers expressed or implied therein; and

IT APPEARING that Consumer First Insurance Company ("Consumer First" or the "Company") is a New Jersey domiciled property/casualty insurer authorized to transact business in New Jersey since January 2, 2002; and

IT FURTHER APPEARING that N.J.S.A. 17:51A-1 et seq. sets forth the authority of the Commissioner to subject a domestic insurer to administrative supervision; and

IT FURTHER APPEARING that in accordance with Confidential Order No. A04-123, the Commissioner ordered that Consumer First shall be placed under administrative supervision as of April 27, 2004 pursuant to N.J.S.A. 17:51A-1 et seq., and

IT FURTHER APPEARING that, among other things, the Commissioner ordered in said Confidential Order that, effective immediately, Consumer First shall cease writing new business on any unbound application dated subsequent to the date of the Order; and

IT FURTHER APPEARING that the Company has advised the Department of Banking and Insurance ("Department") that it has or will take steps to help enhance its financial solvency to enable it to resume writing new business and, to the extent those steps are taken, the

Commissioner has determined that the Company may resume writing new business, subject to certain conditions; and

IT FURTHER APPEARING that part of the Company's plan is to terminate certain agents in order to control the amount of business it receives; and

IT FURTHER APPEARING that the Department has reviewed the plan for reduction in agency force, and has found the plan to be a reasonable and satisfactory means to help enhance the financial solvency of the Company so as to enable it to resume writing new business, and has found that the plan does not violate the provisions of N.J.S.A. 17:33B-18b.

THEREFORE, it is on this 1st day of October, 2004

ORDERED that Confidential Order No. A04-123 is hereby amended to permit Consumer First to write new business in accordance with the requirements of applicable law, subject to the following conditions:

1. CFI Holdings Company LLC, the parent company of Consumer First, shall contribute \$1,250,000.00 to Consumer First, in the form of cash or its equivalent, within 10 days of the date of this Order.

2. Subject to the Department's receipt of evidence of the contribution set forth in paragraph 1, and to its receipt of the projections set forth in paragraph 3 and the business plan set forth in paragraph 5 and to those submissions being deemed satisfactory by the Department, and to the Company's continued compliance with all other conditions set forth herein, Consumer First shall be permitted to begin writing new business.

3. Consumer First shall submit financial projections to the Department for 2004.

4. Consumer First shall maintain a net premium to surplus as regards policyholders ("surplus") ratio of 2.5 to one; a gross premium to surplus ratio of 5.0 to one; and a loss and loss adjustment expense reserves to surplus ratio of 4.0 to one.
5. Consumer First shall provide the Department with a detailed business plan for 2005 and 2006, including, but not limited to, a narrative, balance sheet, income statement, leverage ratios, and risk based capital information.
6. Consumer First shall submit by April 1, 2005 updated projections for 2005 and 2006 based upon actual results for 2004.
7. Consumer First shall commit to infusing additional capital by April 15, 2005 if it is determined by the Commissioner that such additional capital is needed based upon the projections submitted pursuant to paragraph 6 above, which infusion shall be in addition to the capital provided pursuant to paragraph 1 above.
8. Commencing with the month in which this Order is issued, Consumer First shall submit monthly financial statements to the Office of Solvency Regulation of the Department within 45 days of the close of the month, which statements shall include, but not be limited to, statutory balance sheet, income statement, statement of cash flows, and number of exposures.
9. Confidential Order No. A04-123 shall remain in effect, except to the extent the terms thereof are inconsistent with the terms, provisions and requirements set forth herein.
10. This Order and the proceedings related thereto are confidential unless the Commissioner determines that it is in the best interest of the public, Consumer First, its policyholders, beneficiaries or creditors to make such proceedings and Order public. Nothing in

this paragraph shall prohibit the sharing of confidential information as provided by N.J.S.A. 17:51A-4.

11. If the Company objects to the actions to be taken as set forth herein, Consumer First may request a hearing before the Department within 10 days of its receipt of this Order. The request for a hearing shall be in writing and shall include:

- a. The name, address and daytime telephone number of a contact person familiar with this matter;
- b. A copy of this Order;
- c. A statement requesting a hearing; and
- d. A concise statement describing the basis upon which the Company believes that any material factual assertion contained herein is erroneous.

Within 30 days of the receipt of a properly completed request for a hearing, the Commissioner shall determine whether this matter constitutes a contested case, pursuant to the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq. If the Commissioner finds that the matter does not constitute a contested case, the Commissioner shall notify Consumer First in writing as to the final disposition of this matter. If the Commissioner finds that this matter constitutes a contested case, the Commissioner may transmit this matter to the Office of Administrative Law for a hearing consistent with the Uniform Administrative Procedure Rules, N.J.A.C. 1:1.

Holly C. Bakke  
Holly C. Bakke  
Commissioner

JC04-12/INOORD



**EXHIBIT C**

# CONSUMER FIRST



INSURANCE COMPANY

"NJ Auto Experts"

January 5, 2009


Mr. Raymond Conover  
Assistant Commissioner  
New Jersey Department of Banking and Insurance  
20 West State Street  
Trenton, NJ 08625-0325

Dear Mr. Conover:

Consumer First Insurance Company is in the process of obtaining additional Capital for Surplus. We are currently working with First United Bank to reach an agreement on restructuring or obtaining a settlement on the outstanding debt of CFI Holding LLC. In addition, there are investor groups that are finalizing their due diligence and moving towards preparing final term sheets. Consumer First Insurance Company expects to have a final agreement in place by the end of January 2009 if not sooner. At this time, CFIC requests an extension until January 23, 2009 to obtain a firm commitment on obtaining additional capital for surplus. If Consumer First Insurance Company is unable to obtain a firm commitment to reaching a deal by January 23, 2009, then CFIC would agree to be placed into voluntary Rehabilitation. Please keep in mind that finalizing paperwork and agreements may extend beyond January 23, 2009. Thank you for your consideration in this matter.

Also, in regard to the NJ PIP fee schedule that is scheduled for a hearing on January 26, 2009, our claims TPA, First MCO has done an analysis on the impact of a fee schedule for CFIC. In their opinion, the implementation of a fee schedule will have a substantial positive impact on reserves and therefore on positive effect on surplus.

Sincerely,



Timothy Sellinger  
President  
Consumer First Insurance Company  
973-745-0462

**EXHIBIT D**

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF CONSUMER )      CONFIDENTIAL ORDER  
FIRST INSURANCE COMPANY    )

This matter is opened by the Commissioner of Banking and Insurance ("Commissioner") of the New Jersey Department of Banking and Insurance ("Department") pursuant to the authority contained in N.J.S.A. 17:17-15, 17:23-1 et seq., 17:23-20 et seq., and 17:51A-1 et seq., and all powers expressed or implied therein; and

IT APPEARING that Consumer First Insurance Company ("Consumer First" or the "Company") is a New Jersey domiciled stock property and casualty insurance company authorized to transact business in New Jersey since January 2, 2002 with its statutory address at 1144 Clifton Avenue, Clifton, New Jersey; and

IT FURTHER APPEARING that Consumer First only writes private passenger automobile insurance coverage in New Jersey which coverage is written through producers; and

IT FURTHER APPEARING that N.J.S.A. 17:51A-1 et seq., the Administrative Supervision Act (the "Act"), sets forth the authority of the Commissioner to subject all domestic insurers to administrative supervision; and

IT FURTHER APPEARING that, pursuant to Confidential Order No. A04-123, the Commissioner placed Consumer First under administrative supervision under the Act as of April 27, 2004; and as a part thereof, Consumer First was prohibited from writing any new or renewal business; and

IT FURTHER APPEARING that Confidential Order No. A04-146, issued October 1, 2004, amended Order No. A04-123 to permit Consumer First to write new business in accordance with the requirements of applicable law, subject to various conditions set forth in Order No. A04-146, with the provisions of Confidential Order No. A04-123 remaining in effect to the extent such provisions are not inconsistent with Order No. A04-146; and

IT FURTHER APPEARING that Consumer First continues to operate in a hazardous financial condition as demonstrated by the following:

1. The Company reported capital and surplus of \$2,188,909 as of November 30, 2008, which number is \$111,091 below the minimum capital and surplus of \$2.3 million as required by N.J.S.A. 17:17-1b and e;
2. The Company's Gross Premiums Written to Policyholders' Surplus ratio is 5.94 to 1 as of November 30, 2008, which is above the ratio of 5.0 to 1 required by Confidential Order A04-146;
3. The Company's Net Premiums Written to Policyholders' Surplus ratio is 2.99 to 1 as of November 30, 2008, which is above the ratio of 2.5 to 1 required by Confidential Order A04-146;
4. The Company failed four (4) Insurance Regulatory Information System ("IRIS") tests as of December 31, 2007 (See N.J.A.C. 11:2-27.3(a)2), namely:
  - a. Surplus Aid to Policyholders' Surplus result was 15%. (An unusual value is 15% or greater. The existence of significant amounts of surplus aid (usually through reinsurance treaties) usually indicates that Policyholders' Surplus is inadequate.);

- b. Two Year Overall Operating result was 130%. (An unusual value is 100% or greater. The two-year overall operating ratio is a measure of the profitability of an insurer. A ratio above 100% indicates an operating loss.);
  - c. Net Change in Adjusted Policyholders' Surplus result was a negative 47%. (An unusual value is less than 10%. This ratio measures the improvement or deterioration in the insurer's financial condition during the year based on operation results.); and
  - d. Liabilities to Liquid Assets result was 196%. (An unusual value is 105% or greater.) This ratio is a measure of the insurer's ability to meet its financial demands, such as claim payments, payroll and benefits, utility payments and loan payments.;
5. The Company reported a Net Operating Loss as of September 30, 2008 (the last filed quarterly financial statement) greater than 50% of Policyholders' Surplus in excess of the minimum capital and surplus requirement. As of September 30, 2008, the Company's minimum capital and surplus was \$2.3 million. The Company reported a capital and surplus of \$2,530,935, which is \$230,935 above or in excess of the minimum capital and surplus requirement. Fifty percent of \$230,935 is \$115,468. The Company reported a Net Operating Loss of negative \$789,439, which is greater than 50% of Policyholders' Surplus in excess of the minimum capital and surplus requirement. (See N.J.A.C. 11:2-27.3(a)6);

6. The Company's liquidity ratio as of September 30, 2008 was 340.8%. (An unusual value is 105% or greater). The Company's liquidity ratio has exceeded the 105% benchmark since June 30, 2006. See N.J.A.C. 11:2-27.3(a)15; and
7. The Company's Risk Based Capital ("RBC") ratio as of December 31, 2007 was 2.247 and its combined ratio was 150.1%. These numbers resulted in a RBC Company Action Level Event pursuant to N.J.A.C. 11:2-39 based on the trend test since the RBC was between 2.0 and 3.0 and the combined ratio was greater than 120%. This results in a finding of fact or circumstance that indicates that Consumer First is in a hazardous financial condition. (See N.J.A.C. 11:2-27.3(a)29); and

IT FURTHERING APPEARING that based upon such determination and in accordance with the supervisory authority over Consumer First retained and provided for in Confidential Order Nos. A04-123 and A04-146, on January 23, 2009, the Department notified Consumer First that it shall: cease writing new business immediately; instruct its agents not to submit any policy not completed by 5 p.m., January 23, 2009; and cease sending renewal notices for existing policies as of the close of business, January 23, 2009; and

IT FURTHER APPEARING that the Department believes that it is appropriate to memorialize by Order the directives previously issued to Consumer First.

THEREFORE, IT IS on this 30<sup>th</sup> day of January, 2009

ORDERED that:

1. Consumer First has been and is directed to cease writing any new and renewal business on or after 5 p.m., January 23, 2009. Consumer First shall, within 24 hours of receipt of this Order, if it has not already done so, notify all of its producers that Consumer First

may no longer accept new business applications or issue new policies as of 5 p.m. on Friday, January 23, 2009. Consumer First may process those new business applications signed and dated on or before 5 p.m. on January 23, 2009. Consumer First has been and is directed that it shall take all necessary steps to stop the issuance of renewal notices to policyholders as of 5 p.m. on January 23, 2009. Consumer First shall immediately notify its policyholders who are due to renew their policies in the next three months and to whom it has not issued renewal notices that it is no longer renewing business. Consumer First shall take all necessary steps to continue to notify its policyholders that it is no longer renewing business until authorized in writing by the Department.

2. The provisions of Confidential Order Nos. A04-123 and A04-146 shall remain in effect, except to the extent the terms thereof are inconsistent with the terms, provisions and requirements set forth herein.

3. Consumer First shall provide a copy of this Order to all directors and officers of the Company within 24 hours of its receipt of this Order.

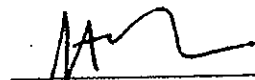
4. This Order and the proceedings related thereto are confidential unless the Commissioner determines that it is in the best interest of the public, Consumer First, its policyholders, beneficiaries or creditors to make such proceedings and Order public. Nothing in this paragraph shall prohibit the sharing of confidential information as provided by N.J.S.A. 17:51A-4.

5. If the Company objects to the actions ordered to be taken as set forth herein, Consumer First may request a hearing before the Department within 10 days from the date of its receipt of this Order. The request for hearing shall be in writing and shall include:



- a. The name, address and daytime telephone number of a contact person familiar with this matter;
- b. A copy of this Order;
- c. A statement requesting a hearing; and
- d. A concise statement describing the basis for which the Company believes that any material factual representation contained herein is erroneous.

Within 30 days of the receipt of a properly completed request for a hearing, the Commissioner shall determine whether this matter constitutes a contested case, pursuant to the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq. If the Commissioner finds that the matter does not constitute a contested case, the Commissioner shall notify Consumer First in writing as to the final disposition of this matter. If the Commissioner finds that this matter constitutes a contested case, the Commissioner may transmit this matter to the Office of Administrative Law for a hearing consistent with the Uniform Administrative Procedures Rules, N.J.A.C. 1:1.



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Steven M. Goldman  
Commissioner

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