

**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.:

v.

FedNat Insurance Company,

Respondent.

/

**PETITION FOR CONSENT ORDER APPOINTING THE FLORIDA DEPARTMENT OF  
FINANCIAL SERVICES AS RECEIVER OF FEDNAT 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 and 631.051, Florida Statutes (2022) for the entry of a Consent Order Appointing the Department as Receiver of FedNat 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 state of Florida domestic property and casualty insurer authorized to transact insurance business in the state of Florida pursuant to Part III of Chapter 624, Florida Statutes on August 20, 2001 under the name American Vehicle Insurance Company. Through a series of transactions Respondent’s name was changed to FedNat Insurance Company, under which it currently operates. Respondent’s principal place of business is located at: 14050 N.W. 14<sup>th</sup> Street, Suite 180, Sunrise, Florida 33323.

## **BACKGROUND: PRE-REFERRAL**

2. In March 2020, after review of Respondent's 2019 Annual Statement, which showed a significant drop in net income and surplus since the prior year and negative underwriting results, as well as continued negative adverse reserve development due to catastrophic weather events in Florida, Louisiana and Texas, OIR required Respondent to file monthly financial statements.

3. In October 2020, OIR began bi-weekly telephone conferences with Respondent's management to address and monitor its financial status and trends.

4. Despite capital infusions, Respondent's surplus continued to decline, and its underwriting losses continued to increase throughout the remainder of 2020 and into and throughout 2021.

5. Due to Respondent's continued surplus decline, poor operational results, limited access to capital, and jeopardized financial stability rating, on April 21, 2022 OIR imposed remedial measures and ordered that Respondent file a strategic plan with OIR no later than April 29, 2022 in Consent Order 294507-22-CO.

6. On May 13, 2022, as part of the reorganization plan submitted by Respondent, OIR approved the early cancellation of approximately 56,500 out of approximately 140,000 of Respondent's Florida policies as of June 29, 2022, along with 8,400 of Monarch National Insurance Company [MNIC]'s in force Florida policies, and all of Maison Insurance Company's [MIC] in force Florida policies in Consent Order 295638-22-CO . (MNIC and MIC are, or were, affiliated companies of Respondent at that time. MIC was a Louisiana domiciled company with a certificate of authority to transact insurance business in the state of Florida.) The order required Respondent, MNIC and MIC to send the affected policyholders their unearned premium no later than July 1,

2022. Respondent also voluntarily ceased writing new business and was ordered, along with MNIC, to file monthly financial statements, as well as obtain OIR's approval for various company activities with a goal of having a solvent runoff.

7. The Office also noted in its May 13, 2022 order the assumption of approximately 83,000 of Respondent's Florida policies by MNIC, the affiliated Florida domiciled insurance company, along with an infusion of capital into MNIC. Ultimately, OIR approved the assumption of those policies by MNIC. **See Department Exhibit A attached hereto and incorporated by reference herein, a redacted copy of the Assumption Agreement between Respondent and MNIC.** Further, MNIC has agreed that it is now fully responsible for these assumed policyholders as to all claims occurring on or after June 1, 2022. **See Department Exhibit B attached hereto and incorporated by reference herein, Consent Order 300808-22-CO regarding MNIC.**

8. On May 23, 2022, OIR approved in Consent Order 295638-22-CO the strategic plan submitted by the Respondent and its affiliates. The plan included the early cancellation of certain in force Florida policies; an infusion of capital into MNIC, along with MNIC's acquisition by Hale Partnership Capital Management LLC and FedNat Holding Company; the assumption of approximately 83,000 of Respondent's Florida policies by MNIC; and the potential merger of MIC into Respondent.

9. On August 9, 2022, OIR received proforma cash flow projections that supported Respondent's plan for a solvent runoff.

10. On August 11, 2022, pursuant to Consent Order 297127-22-CO entered by OIR, MIC an affiliate of Respondent domiciled in the state of Louisiana, was merged into Respondent as part of a reorganization of Respondent's holding company, FedNat Holdings, Inc. and affiliated insurance companies. Respondent is the surviving entity after the merger of FedNat and MIC.

### STAUTORY BASIS FOR REFERRAL

11. 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.

12. 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.

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

14. 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.

### BASIS FOR REFERRAL FOR DELINQUENCY PROCEEDINGS

15. On September 21, 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 and affidavit from referral package is attached hereto and incorporated herein as **Department Exhibit "C"**. The affidavit from Virginia Christy includes the information required by the statute.

16. Section 631.031(2), Florida Statutes, empowers the Department to petition this Court for a consent order directing it to liquidate a domestic insurer, and section 631.051, Florida

Statutes, provides that the Department may apply for such order upon the existence of any of the grounds specified in that section. Based on the documentation received from OIR, including the affidavit of Virginia Christy and a *Consent to Order of Receivership Fed Nat Insurance Company* executed on September 15, 2022, the Department has confirmed that grounds exist that warrant the liquidation of Respondent.

17. Under section 631.061(1), Florida Statutes, Respondent is insolvent within the meaning of section 631.011(14) as stated in the affidavit of Virginia Christy and by Respondent in its Consent to Order of Receivership.

18. More specifically,

A. On September 13, 2022, Respondent notified OIR that it had overstated its cash position and could not complete a solvent runoff. OIR immediately sent an examiner to the company. On September 14, 2022, Respondent advised OIR that it did not have sufficient cash on hand to pay its obligations and debts as they come due in the normal course of business. Therefore, Respondent is insolvent as defined by Fla. Stat. 631.11(14) and delinquency proceedings are appropriate pursuant to Fla. Stat. 631.051(1) and 631.061(2).

B. Due to Respondent's financial condition, its continued operation of the insurance business is hazardous to policyholders, creditors, stockholders and the public. Therefore, delinquency proceedings are appropriate pursuant to Fla. Stat. 631.051(3).

19. Under Section 631.051(11), Florida Statutes, Respondent has consented, through a Resolution of its board of directors, to the appointment of the Department as Receiver of Respondent for the purposes of liquidation, 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. A copy of the Consent is incorporated in **Department Exhibit "D"**.

## REQUESTED RELIEF

20. Accordingly, the Department requests, pursuant to sections 631.031 and 631.061, Florida Statutes, the entry of a *Consent Order Appointing the Department as Receiver of Respondent for Purposes of Liquidation, Injunction, and Notice of Automatic Stay* (“Consent Order”) to allow the Department the ability to marshal Respondent’s assets in the best interest of Respondent’s policyholders, creditors, other claimants, and the public. Upon appointment any bank accounts where FedNat Insurance Company or Maison Insurance Company is the listed owner/holder should be immediately frozen and no ACH debits, outgoing wire or online transfers, or checks should be paid from those accounts unless authorized by the Department as Receiver of Respondent.

21. The Department further requests that as part of the Consent Order, the court also approve and confirm the transfer of the approximately 83,000 Florida policies assumed by MNIC on July 1, 2022.

**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 FedNat Insurance Company for the Purposes of Liquidation, Injunction, and Notice of Automatic Stay.

**RESPECTFULLY SUBMITTED** this the 23rd day of September 2022.

/signed//

**MIRIAM O. VICTORIAN**

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**ALL INFORMATION CONTAINED  
HEREIN IS UNCLASSIFIED**

**ASSUMPTION AGREEMENT**

*By and Between*

**FedNat Insurance Company**

*and*

**Monarch National Insurance Company**

*Effective as of June 1, 2022*

Exhibit A



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**TRADE SECRET**

## ASSUMPTION AGREEMENT

This ASSUMPTION AGREEMENT (this “Agreement”), dated as of June 30, 2022 and effective as of June 1, 2022 entered into by and between, Monarch National Insurance Company, a Florida corporation (“MNIC”), and FedNat Insurance Company, a Florida corporation (the “Company”) (each, a “Party”; together, the “Parties”).

### RECITALS:

**WHEREAS**, the Parties wish to transfer a portion of Company’s Florida business to MNIC; and

**WHEREAS**, as more particularly set forth herein, the Company and MNIC wish to enter into an assumption arrangement pursuant to which MNIC will assume all losses occurring on or after the Assumption Effective Date (as defined below) with respect to those policies set forth on Schedule A, certificates, binders, slips, covers or other agreements of insurance, including all supplements, riders and endorsements issued or written in connection therewith and extensions thereto, issued, renewed, or written by or on behalf of the Company covering homes located in Florida that are in-force as of the Assumption Effective Date, including any policies which may previously have been assumed by the Company from another insurer or acquired by merger and including also such policies that are renewed or processed for renewal by the Company within thirty (30) days after the Assumption Effective Date (the “Assumed Policies”); and

**WHEREAS**, the Parties intend for MNIC to assume no duties, liabilities or obligations of any kind whatsoever attributed to or arising out of claims occurring or arising from losses occurring prior to the Assumption Effective Date under the Assumed Policies;

**NOW, THEREFORE**, in consideration of the foregoing premises and the mutual promises and covenants set forth herein, and in reliance upon the representations, warranties, conditions and covenants contained herein, and intending to be legally bound hereby and thereby, the Parties hereto do hereby agree as follows:

### **ARTICLE I.** **DEFINITIONS**


#### **Section 1.1     Defined Terms.**

The following terms shall have the respective meanings specified below throughout this Agreement.

“Agreement” has the meaning set forth in the first paragraph.

“Affiliate” (and, with a correlative meaning, “Affiliated”) means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person. As used in this definition, “control” (including, with correlative meanings, “controlled by” and “under common control with”) shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract, as trustee or executor, or otherwise).

“Applicable Law” means any order, law, statute, regulation, rule, pronouncement, ordinance, bulletin, writ, injunction, directive, judgment, decree, principle of common law, constitution or treaty



enacted, promulgated, issued, enforced or entered by any Governmental Entity applicable to the parties hereto, or any of their respective businesses, properties or assets.

“Assumed Policies” has the meaning set forth in the recitals.

“Assumption Certificate” shall mean the assignment endorsement to be issued by MNIC to the policyholder of any Assumed Policy, which shall be in the “me too” FNIC form agreed to by the Parties and approved by the Florida Office of Insurance Regulation.

“Assumption Effective Date” means 12:01 a.m. Eastern Time on June 1, 2022.

“Claim” and “Claims” means any and all claims, requests, demands or notices made by or on behalf of policyholders, beneficiaries or third party claimants for indemnification or payment for amounts due or alleged to be due under the Assumed Policies.

“Company” has the meaning set forth in the first paragraph.

“Confidential Information” means any confidential or proprietary information related to the Assumed Policies, including written or electronically stored confidential and proprietary data which identifies past or current customers of the Company or its Affiliates, written information about business practices, product design, pricing, research, or development, computer systems and written business plans of the Company or its Affiliates, and confidential and proprietary computer data processing tapes, record formats, source and object codes, in each case related to the Assumed Policies.

“Governmental Entity” means any federal, state, local, foreign, international or multinational entity or authority exercising executive, legislative, judicial, regulatory, administrative or taxing functions of or pertaining to government.

“MNIC” has the meaning set forth in the first paragraph.

“UPR Transfer Amount” has the meaning set forth in Section 3.1(a)(i).


“Inuring Reinsurance” means all reinsurance agreements, treaties and contracts, including any renewals or extensions thereof, to the extent such reinsurance agreements, treaties and contracts provide reinsurance coverage for the Assumed Policies.

“Outside Accountants” has the meaning set forth in Section 3.1(a)(vi).

“Party” and “Parties” have the meanings set forth in the first paragraph.

“Person” shall mean any individual, corporation, partnership, firm, joint venture, association, joint-stock company, limited liability company, trust, estate, unincorporated organization, Governmental Entity or other entity.

“Post-Assumption Losses” shall mean liabilities and obligations for Claims directly arising from losses caused by a peril covered by the Assumed Policies occurring on or after the Assumption Effective Date and all loss adjustment expenses and defense costs attributed to such Claims. “Post-Assumption Losses” shall not include any Pre-Assumption Effective Date Liabilities. “Post-Assumption Losses” shall not include any liabilities or obligations incurred by or on behalf of the Company as a result of any grossly negligent, willful, fraudulent or criminal act or violation of the Florida Insurance Code by the Company, any of its officers, managers, employees, or agents or any of its Affiliates or any of the officers, directors,



employees or agents of its Affiliates, regardless of when such liabilities or obligations are incurred. "Post-Assumption Losses" shall not include (i) any Claims arising from, relating or connected to or in any way associated with a loss caused by a peril covered by the Assumed Policies and occurring or beginning to occur before the Assumption Effective Date; (ii) any loss adjustment expenses or defense costs attributable to such a Claim described in (i), including expenses related to the investigation, appraisal, settlement, litigation, defense or appeal of such a Claim; (iii) liabilities for consequential, exemplary, punitive or similar extra contractual damages related or connected to or in any way associated with such a Claim described in (i); (iv) liabilities for statutory or regulatory fines or penalties related or connected to or in any way associated with such a Claim described in (i); or (v) any claim alleging bad faith or unfair or deceptive insurance practices or any claim that could be brought pursuant to Sections 624.155 or 626.9541, Florida Statutes, related or connected to or in any way associated with such a Claim described in (i). "Post-Assumption Losses" shall be net of any Inuring Reinsurance which may otherwise be available to or for the benefit of the Company and MNIC (per Section 2.1(a) hereof) with regard to the Assumed Policies. MNIC shall in no event be liable for or obligated to pay any premiums or expense reimbursement attributed to any Inuring Reinsurance which may otherwise provide coverage for the Assumed Policies post-Assumption Effective Date, as such obligations and liabilities for Inuring Reinsurance premiums are to remain the exclusive obligation and liability of the Company under the terms of this Agreement.

"Pre-Assumption Effective Date Liabilities" means claims, losses, expenses, costs or liabilities of any kind whatsoever under the Assumed Policies occurring prior to the Assumption Effective Date or in any way related or connected to or associated with a loss occurring before the Assumption Effective Date, including any claims, losses, expenses, costs or liabilities (including incurred but not reported claims, losses, costs or expenses) arising out of or attributed to losses or claims occurring prior to the Assumption Effective Date or in any way related or connected to or associated with a loss occurring before the Assumption Effective Date, regardless of whether the loss is known or unknown before the Assumption Effective Date. This term also includes any and all duties, obligations, covenants, costs, expenses or liabilities of any kind whatsoever arising from or attributed to the Company or its business operations, whether incurred or performed by the Company directly or indirectly through its Affiliates or other Persons (excluding MNIC and its Affiliates from the term "Persons" for this purpose). This term shall include (i) any Claims arising from, relating or connected to or in any way associated with a loss caused by a peril covered by the Assumed Policies and occurring or beginning to occur before the Assumption Effective Date, regardless of whether such loss is known or unknown before the Assumption Effective Date; (ii) any loss adjustment expenses or defense costs attributable to such a Claim described in (i), including expenses related to the investigation, appraisal, settlement, litigation, defense or appeal of such a Claim; (iii) liabilities for consequential, exemplary, punitive or similar extra contractual damages related or connected to or in any way associated with such a Claim described in (i); (iv) liabilities for statutory or regulatory fines or penalties related or connected to or in any way associated with such a Claim described in (i); (v) any claim alleging bad faith or unfair or deceptive insurance practices or any claim that could be brought pursuant to Sections 624.155 or 626.9541, Florida Statutes, related or connected to or in any way associated with such a Claim described in (i). The Parties expressly intend for MNIC to assume only those obligations and liabilities for the Assumed Policies arising on or after the Assumption Effective Date and the obligations associated with Unearned Premium Reserves (as each of these terms is defined herein).

"Preliminary UPR Transfer Amount" has the meaning set forth in Section 3.1(a)(ii).

"Premium(s)" means all gross written premiums, pre-paid premiums, considerations, deposits, premium adjustments, fees and similar amounts, less cancellation and return premiums, with regard to the Assumed Policies following the Assumption Effective Date.

**[REDACTED]**

“Replacement Policy” means a policy offered or issued by MNIC on the “me too” FNIC policy forms to be approved by Florida’s Office of Insurance Regulation, to take effect upon the expiration or cancellation of an Assumed Policy.

“Unearned Premium Reserves” means the gross liability as of the Assumption Effective Date for the amount of collected Premium and receivables for uncollected Premium corresponding to the unexpired portion of all Assumed Policies, calculated using the daily pro rata method, prepared in accordance with statutory accounting practices, and subject to any applicable Premium, commission or brokerage adjustments prior to or after the Assumption Effective Date pursuant to the underlying terms and conditions of the Assumed Policies or agent or broker contracts related thereto, which adjustments shall be accounted for and settled as between the Parties pursuant to Section 3.1(a) and Section 3.4.

“Unresolved Changes” has the meaning set forth in Section 3.1(a)(vi).

“UPR Transfer Amount” means the final amount determined pursuant to the procedures set forth in Section 3.1(a) by applying the UPR Adjustment (if any) to the Preliminary UPR Transfer Amount.

“UPR True Up Report” has the meaning set forth in Section 3.1(a)(ii).

“UPR Adjustment” has the meaning set forth in Section 3.1(a)(ix).

## **Section 1.2 Interpretation.**

(a) The Parties hereto have participated jointly in the negotiation and drafting of this Agreement. Consequently, in the event that an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the Parties hereto, and no presumption or burden of proof will arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

(b) When a reference is made in this Agreement to a section or article, such reference will be to a section or article of this Agreement unless otherwise clearly indicated to the contrary. Whenever the words “include”, “includes” or “including” are used in this Agreement they will be deemed to be followed by the words “without limitation.” The words “hereof,” “herein” and “herewith” and words of similar import will, unless otherwise stated, be construed to refer to this Agreement (including the schedules and exhibits) as a whole and not to any particular provision of this Agreement. The meaning assigned to each term used in this Agreement will be equally applicable to both the singular and the plural forms of such term, and words denoting any gender will include all genders. Where a word or phrase is defined herein, each of its other grammatical forms will have a corresponding meaning.

(c) The schedules and exhibits, if any, attached hereto are incorporated into this Agreement and will be deemed a part hereof as if set forth herein in full. In the event of any conflict between the provisions of this Agreement and any schedule or exhibit, the provisions of this Agreement will control. Capitalized terms used in the schedules have the meanings assigned to them in this Agreement. The listing of an item in one section of the schedules shall be deemed a listing in each section of the schedules, notwithstanding the lack of a specific cross-reference, and to apply to each other representation and warranty to which its relevance is reasonably apparent on its face. The section references referred to in the schedules are to sections of this Agreement, unless otherwise expressly indicated.

**ARTICLE II.**  
**THE ASSUMPTION TRANSACTION**

**Section 2.1     Assumed Policies.**

(a) Effective on and as of the Assumption Effective Date, (i) the Company shall transfer and absolutely assign to MNIC, and MNIC shall take assignment of, all of the contractual and other rights of the Company under and with respect to the Assumed Policies, including all Premium receivables, and (ii) MNIC shall assume all contractual obligations under the Assumed Policies corresponding to the Unearned Premium Reserves, including Post-Assumption Losses; provided, however, that MNIC shall have no duties, responsibilities, or obligations with regard to, any Pre-Assumption Effective Date Liabilities and the Company will retain contract rights with respect to the Pre-Assumption Effective Date Liabilities. Furthermore, effective on and as of the Assumption Effective Date, the Company shall assign the right to receive payment under Inuring Reinsurance with respect to the Assumed Policies to MNIC and, to the extent such amounts are received by the Company, shall promptly remit the same to MNIC upon receipt thereof.

(b) MNIC agrees to substitute itself in the Company's place with respect to the Assumed Policies as if it had issued each Assumed Policy on the Assumption Effective Date, such that MNIC shall perform all contractual promises made by the Company and shall be entitled to exercise all of the Company's rights, in each case arising on or after the Assumption Effective Date pursuant to the terms and conditions of the Assumed Policies, but excluding any Pre-Assumption Effective Date Liabilities, which shall remain the exclusive obligation of the Company. MNIC hereby covenants and agrees that it may be sued for its actions after the Assumption Effective Date, in its own name, by a policyholder for Post-Assumption Losses under the Assumed Policies, except for any Pre-Assumption Effective Date Liabilities, for which MNIC shall have no liability or obligation of any kind whatsoever.

(c) It is the intent of the Parties to this Agreement to accomplish, as of the Assumption Effective Date, a complete transfer of all of the Company's contractual rights, obligations, liabilities (excluding unearned agent commissions the right to collection of which remains with the Company) and risks with respect to each of the Assumed Policies (provided that the Company shall retain any and all Pre-Assumption Effective Date Liabilities and any rights associated therewith) with the result that MNIC, as transferee, in all respects and conditions, shall succeed the Company as the insurer under the terms and provisions of each of the Assumed Policies as though MNIC had issued such Assumed Policies on the Assumption Effective Date, and to transfer to MNIC, as administrator, full and complete responsibility for servicing and administering Claims for Post-Assumption Losses under the Assumed Policies in accordance with the terms and conditions of this Agreement (excluding Pre-Assumption Effective Date Liabilities). For avoidance of doubt, assumption of such responsibility for servicing and administering such Claims for Post-Assumption Losses shall not prohibit MNIC from doing so through a contractual arrangement with a third party (including an Affiliate of the Company).

(d) On and after the Assumption Effective Date, no further rights or liabilities shall accrue to the Company under Assumed Policies other than those associated with Pre-Assumption Effective Date Liabilities (which, as noted in Section 2.1(c), does not include responsibility for unearned agent commission).

**Section 2.2     Assumption Certificates.**

**CONFIDENTIAL**

Promptly after the Assumption Effective Date, MNIC shall issue to each of the policyholders of the Assumed Policies an Assumption Certificate.

**Section 2.3     Representations and Warranties of the Company.**

The Company hereby represents and warrants to MNIC as of the date of execution of this Agreement the following:

(a)     The Company is an insurance company duly authorized and validly existing under the laws of the State of Florida.

(b)     The Company has all requisite power and authority to execute and deliver this Agreement and to perform all of its respective obligations hereunder and thereunder. The execution, delivery and performance of this Agreement by the Company has been duly and validly authorized by all necessary action of the Company, and no further action, consent or approval on the part of the Company is required for the valid performance of its obligations under this Agreement, except as otherwise identified in Schedule 2.3(b) attached hereto.

(c)     The execution, delivery and performance of this Agreement by the Company does not require the amendment of any contracts, agreements or other instruments of the Company or its Affiliates, and no third party consents or authorizations are required for the valid performance of its obligations under, or to otherwise effectuate the terms of, this Agreement, except as otherwise identified in Schedule 2.3(c) attached hereto.

(d)     There is no action, suit, investigation or proceeding pending against, or affecting the properties of the Company before any court or arbitrator or any Governmental Entity, agency or official which challenges or seeks to prevent the consummation of the transactions contemplated hereby.


EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS SECTION 2.3, NONE OF THE COMPANY, ANY OF ITS AFFILIATES OR ANY OTHER PERSON MAKES ANY REPRESENTATIONS OR WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, WITH RESPECT TO THE ASSUMED POLICIES. WITHOUT LIMITING THE FOREGOING, NEITHER THE COMPANY, ANY OF ITS AFFILIATES NOR ANY OTHER PERSON IS MAKING ANY REPRESENTATION OR WARRANTY TO MNIC WITH RESPECT TO ANY FINANCIAL PROJECTION OR FORECAST RELATING TO THE ASSUMED POLICIES.

**Section 2.4     Representations and Warranties of MNIC.**

MNIC hereby represents and warrants to the Company as of the date of execution of this Agreement the following:

(a)     MNIC is an insurance company duly authorized and validly existing under the laws of the State of Florida and has all requisite power and authority to sell, own, lease and operate its respective assets and business and to carry on its respective businesses as now being conducted.

(b)     MNIC has all requisite power and authority to execute and deliver this Agreement and to perform all of its respective obligations hereunder. The execution, delivery and performance of this Agreement by MNIC has been duly and validly authorized by all necessary action of MNIC, and no further action, consent or approval on the part of MNIC is required for the valid performance of its obligations under this Agreement.



(c) The execution, delivery and performance of this Agreement by MNIC does not require the amendment of any contracts, agreements or other instruments of MNIC or its Affiliates, and no third-party consents or authorizations are required for the valid performance of its obligations under, or to otherwise effectuate the terms of, this Agreement.

(d) There is no action, suit, investigation or proceeding pending against, or affecting the properties of MNIC before any court or arbitrator or any Governmental Entity, agency or official which challenges or seeks to prevent the consummation of the transactions contemplated hereby.

**Section 2.5 Conditions Precedent to Effectiveness of Agreement.**

In order for the transactions contemplated by this Agreement to become effective, the following conditions shall have been satisfied on or before the date of execution of this Agreement:

(a) The Company shall provide to MNIC fully executed and duly authorized written consents or authorizations identified in Schedule 2.3(b) that are required to effectuate the provisions of this Agreement, in such forms as are acceptable to MNIC in its sole discretion;

(b) The Company shall provide to MNIC fully executed amendments to any and all contracts, agreements or other instruments of the Company or its Affiliates, or written consents or authorizations from any third parties (including confidentiality agreements), which MNIC determines in its sole discretion are required to effectuate the provisions of this Agreement, in such forms as are acceptable to MNIC in its sole discretion, including amendments to any contracts, agreements, instruments, or consents and authorizations identified in Schedule 2.3(c);

(c) The Florida Office of Insurance Regulation shall execute and issue a Consent Order, which has been duly executed by the Parties, approving this Agreement and the transactions contemplated herein, and expressly finding, among other things, that this Agreement is supported by "fair consideration" and is not intended to hinder, delay, or defraud either then-existing or future creditors of the Company, as contemplated by Chapter 631, Florida Statutes;

(d) All conditions to the closing of the transactions contemplated by each of the Master Restructure Agreement dated as of May 13, 2022 by and among MNIC, the Company, FedNat Holding Company, HPCM and the Hale Investors (as defined therein) and the Stock Investment and Subscription Agreement by and among such parties other than those to be satisfied at such closing shall have been satisfied or waived;

(e) The Company shall pay MNIC the UPR Transfer Amount into an account specified by MNIC;

(f) On June 1, 2022, but effective July 1, 2022, MNIC shall have placed reinsurance and the Florida Hurricane Catastrophe Fund ("FHCF") will have agreed that the Company's policies will count towards MNIC's exposure for FHCF reinsurance purposes at June 30, 2022; and

(g) Any other deliveries contemplated by the other provisions hereof.

**Section 2.6 Transfer of Unearned Premium Reserve.**

It is the intent of the Parties that the Company shall transfer to MNIC an amount made up of cash and Premium receivables equal to one hundred percent (100%) of the amount of the Unearned Premium



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Reserves. The transfer of the net Unearned Premium Reserves shall be subject to an initial true-up, adjustment and settlement approximately forty-five (45) days after the Assumption Effective Date pursuant to the provisions of Section 3.1(a) and to offsets and a final true-up and settlement on July 15, 2022 pursuant to Section 3.4. MNIC shall have no obligation or liability to pay any of the Company's premiums, assessments, costs or other liabilities whatsoever arising from or attributed to premium taxes, residual market or guaranty fund assessments (including assessments by the Florida Insurance Guaranty Association, Florida Hurricane Catastrophe Fund, and Citizens Property Insurance Corporation), reimbursement premiums arising under Company's contracts with the Florida Hurricane Catastrophe Fund, or premiums arising under Company's contracts with other reinsurers. The Parties agree that the premiums, assessments, costs or other liabilities identified in the immediately preceding sentence shall remain the exclusive obligation of the Company to pay or satisfy out of other assets or funds of the Company. The Unearned Premium Reserves shall be the sole and exclusive property of MNIC on and after the Assumption Effective Date.

**Section 2.7     Non-Assumption of Liabilities.**

Except as otherwise expressly stated in this Agreement, neither MNIC nor any of its Affiliates will, directly or indirectly, assume any liability or obligation of the Company or its Affiliates of any kind, character or description, regardless of when incurred, discovered or reported.

**ARTICLE III.  
PAYMENTS AND OFFSET**

**Section 3.1     Premium Payments.**

**(a)     Unearned Premium Reserves: True Up Process.**

(i)     The Company shall remit to MNIC an amount equal to \$110,400,000 (the "UPR Transfer Amount") by wire transfer of immediately available funds upon execution of this Agreement.

(ii)     Within forty-five (45) days following the Assumption Effective Date, MNIC shall calculate the Unearned Premium Reserve as of the Assumption Effective Date for the policies on Schedule A and any other policies assumed in addition to those identified on Schedule A, considering the post-Assumption Effective Date information available to the Parties, including the uncollectibility of receivables for uncollected Premium. The sum of the Unearned Premium Reserve, as calculated in this Section 3.1(a)(ii) will result in the "Preliminary UPR Transfer Amount" and MNIC shall send to the Company its computation of the Preliminary UPR Transfer Amount together with its work papers used to compute the same (the "UPR True Up Report").

(iii)     If, within twenty (20) days following its receipt of the UPR True Up Report, the Company does not dispute the UPR True Up Report or the Preliminary UPR Transfer Amount prepared by MNIC, then the Preliminary UPR Transfer Amount, as set forth in the UPR True-up Report, shall be considered the finally determined UPR Transfer Amount for purposes of this Agreement.

(iv)     In the event the Company has any dispute with regard to the UPR True Up Report or the Preliminary UPR Transfer Amount, such dispute shall be resolved in the manner described in this Section 3.1(a). The Company shall notify MNIC in writing of


such dispute within twenty (20) days after the Company's receipt of the UPR True Up Report, which notice shall specify in reasonable detail the nature of the dispute.

(v) During the thirty (30) day period following the Company's receipt of such notice, the Parties shall attempt to resolve such dispute and determine the final calculation of the UPR Transfer Amount.

(vi) If, at the end of the thirty (30) day period specified in subsection (a)(v) above, the Parties shall have failed to reach a written agreement with respect to all or a portion of such dispute (those items that remain in dispute at the end of such period are the "Unresolved Changes"), the Unresolved Changes shall be referred to an accounting firm (the "Outside Accountants") jointly selected by the Company's accountants and MNIC's accountants for review and resolution of any and all matters (but only such matters) which remain in dispute. The Company and MNIC shall instruct their respective accountants to select the Outside Accountants in good faith within ten (10) days. If the Company's and MNIC's accountants shall not have agreed upon the Outside Accountants within such ten (10) day period, within an additional five (5) days, they shall each designate an accounting firm that has not performed work in the last two years for either the Company or MNIC and with expertise with respect to homeowners' insurance business in the United States and the Outside Accountants shall be selected by lot from those two accounting firms. If only one of the Company's and MNIC's accountants shall so designate a name of an accounting firm for selection by lot, such accounting firm so designated shall be the Outside Accountants.

(vii) Each Party hereto agrees to execute, if requested by the Outside Accountants, a reasonable engagement letter. All fees and expenses relating to the work, if any, to be performed by the Outside Accountants shall be borne pro rata by the Company and MNIC in inverse proportion to the allocation of the dollar amount of the Unresolved Changes, in the aggregate, between the Company and MNIC made by the Outside Accountants such that the party with whom the Outside Accountants agree more closely pays a lesser proportion of the fees and expenses. The Outside Accountants shall act as an arbitrator to determine, based solely on the provisions of this Agreement and the presentations by the Company and MNIC, or Representatives thereof, and not by independent review, only the resolution of the Unresolved Changes. The Outside Accountants' resolution of the Unresolved Changes, which for each of the Unresolved Changes shall be within the range of values of the amount claimed by either Party as to any of the Unresolved Changes, shall be made within thirty (30) days of the submission of the Unresolved Changes to the Outside Accountants, shall be set forth in a written statement delivered to the Company and MNIC and shall be deemed to be mutually agreed upon by the Company and MNIC for all purposes of this Agreement. Any changes to the UPR True Up Report resulting from such resolution of the Unresolved Changes shall be made, and such UPR True Up Report, as so changed shall be the final UPR True Up Report and the UPR Transfer Amount reflected therein shall be deemed the finally determined UPR Transfer Amount for purposes of this Agreement.

(viii) Cooperation. At all times prior to the final determination of the final UPR True Up Report and UPR Transfer Amount, MNIC shall cooperate fully with the Company and the Company's authorized Representatives, including providing, on a timely basis, all information necessary or useful in reviewing the UPR True Up Report.



(ix) UPR Adjustment. If, pursuant to the final UPR True Up Report, the finally determined Unearned Premium Reserve is greater than the UPR Transfer Amount, the Company shall pay to MNIC, in a manner provided in Section 3.1(a)(x), the amount of such difference to the extent not previously paid. If, pursuant to the final UPR True Up Report, the final UPR Transfer Amount is less than the UPR Transfer Amount, MNIC shall pay to the Company, in a manner provided in Section 3.1(a)(x), the amount of such difference). Any payment hereunder shall be referred to as the "UPR Adjustment."

(x) Payment of UPR Adjustment. Payment of the UPR Adjustment shall be made within five (5) business days after the amount of the UPR Adjustment has been finally determined pursuant hereto, by wire transfer to the applicable Party of immediately available funds by the Party obligated to make such payment to the account designated by the receiving Party.

(b) Collection of Premiums.


Following the Assumption Effective Date and subject to Section 3.3(a), all Premiums collected by MNIC or any of its Affiliates attributed to Assumed Policies shall be retained by MNIC and all Premiums collected by the Company shall be deposited directly into an account (or accounts) designated by, and issued in the name of, MNIC or its Affiliate. Any Premiums collected by the Company pursuant to this Section 3.1 or Section 3.3 shall be the sole and exclusive property of MNIC and, notwithstanding Section 3.2, shall not be subject to setoff in any form by the Company.

**Section 3.2     Offset Rights.**

Except as otherwise expressly provided herein, each Party hereto, and each of its respective Affiliates at the time an offset is asserted, shall have, and may exercise at any time and from time to time, the right to offset any balance or balances due to the other Party or any of its Affiliates at the time an offset is asserted, arising under this Agreement or any other agreement hereafter entered into by and between them, and regardless of whether on account of Premiums or Post-Assumption Losses related to or arising under the Assumed Policies; provided, however, that in the event of the insolvency of a Party hereto or any of its Affiliates, offsets shall only be allowed in accordance with the provisions of Applicable Law.

**Section 3.3     Premium Payments for Assumed Policies**

(a) Upon and after the Assumption Effective Date, all Premium payments collected under the Assumed Policies shall be the sole property of MNIC. Effective as of the Assumption Effective Date, the Company hereby assigns all rights and privileges to draft or debit the accounts of any policyholders of the Assumed Policies for Premiums due after the Assumption Effective Date under the Assumed Policies pursuant to existing pre-authorized bank draft or electronic fund transfer arrangements between the Company and such policyholders. On and after the Assumption Effective Date, MNIC is authorized to collect Premiums for the Assumed Policies from policyholders of the Company and may deposit such Premiums directly into one or more accounts designated by, and issued in the name of, MNIC. To the extent any Premiums are received directly by the Company or its Affiliate, the Company shall so advise MNIC and shall promptly remit them to MNIC. The Company hereby appoints MNIC as its duly appointed attorney-in-fact for purposes of authorizing MNIC to endorse any Premium checks, drafts and money orders on behalf of the Company for deposit into MNIC's accounts for Premiums due on and after the Assumption Effective Date. MNIC and the Company agree to maintain accounting and operational records and



books in adequate detail so as to identify the specific Assumed Policies and policyholders of the Company with respect to all collected Premiums.

(b) MNIC shall timely pay any return Premium coming due under the Assumed Policies payable on or after the Assumption Effective Date. MNIC's obligation to pay such return Premium is limited to payment of such Premium actually received by MNIC as part of the Unearned Premium Reserves. The Company shall retain the exclusive obligation to pay return Premium attributed to the Assumed Policies prior to the Assumption Effective Date.

**Section 3.4 Final Settlement, Reports and Remittances.**

(a) On July 15, 2022, the Parties shall conduct a settlement based upon monthly bordereaux to be provided by or on behalf of MNIC evidencing the amount due or to be due in a form, and containing such detail, as is agreed to by the Parties. Such settlement shall fully settle the amount by which the UPR Transfer Amount exceeds or does not exceed the amount intended to be transferred pursuant to Section 2.6 after taking into account all payments, credits, offsets and other adjustments, including Premium or commission adjustments payable to or by the Company or MNIC pursuant to the terms of any of the Assumed Policies or any agent, producer or broker contract that relates to the Assumed Policies, which adjustments, whether positive or negative, shall be credited to or charged against MNIC, as the case may be. Each Party shall pay or credit in cash or its equivalent to the other all net amounts for which it may be liable under the terms and conditions of this Agreement at the July 15, 2022 settlement.

(b) MNIC shall timely pay any return Premium coming due under the Assumed Policies payable on or after the Assumption Effective Date. MNIC's obligation to pay such return Premium is limited to payment of such Premium actually received by MNIC as part of the Unearned Premium Reserves. The Company and FedNat Underwriters, Inc. shall retain the exclusive obligation to pay return Premium attributed to the Assumed Policies prior to the Assumption Effective Date. To the extent Premium to be returned includes both pre- and post- Assumption Effective Date periods, then the Company and FedNat Underwriters, Inc. shall be responsible for the pre-Assumption Effective Date period and MNIC for the post-Assumption Effective Date period.

(c) Each of the Company and FedNat Underwriters, Inc. hereby assigns to MNIC any rights it has to return commissions that become due from any agent, producer, broker or other administrative entity as a result of returned Premiums paid by MNIC, and MNIC may collect such return commissions directly from such Persons.

(d) The Company and MNIC shall furnish each other with such records, reports and information with respect to the Post-Assumption Losses, Claims, Inuring Reinsurance, and Unearned Premium Reserves, as may be reasonably required by the other Party to comply with any internal reporting requirements or reporting requirements of any Governmental Entity or to prepare and complete such Party's quarterly and annual financial statements. In addition, if requested by the Company, MNIC shall provide the Company with (i) monthly reports within thirty (30) days following the end of each month and in such form as agreed by the Parties, identifying all adjustments to Premiums, and (ii) such additional information as may be reasonably requested by the Company with respect to any such reports.

(e) If the Company or MNIC receives notice of, or otherwise becomes aware of, any inquiry, investigation, proceeding, from or at the direction of a Governmental Entity, or is served

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or threatened with a demand for litigation, arbitration, mediation or any other similar proceeding relating to the Assumed Policies, the Company or MNIC, as applicable, shall promptly notify the other Party thereof, whereupon the Parties shall cooperate in good faith and use their respective commercially reasonable efforts to resolve such matter in a mutually satisfactory manner in light of all the relevant business, regulatory and legal facts and circumstances.

(f) Each Party, at its expense, shall have the right, through authorized Representatives and upon reasonable advance notice during normal business hours, to periodically audit and inspect all books, records, and papers of the other Party solely in connection with the Assumed Policies or Claims in connection therewith and the performance of the Claims, underwriting and other administration services pursuant to Article 4. Each Party shall treat the other Party's books, records, and papers in confidence.

(g) MNIC agrees that so long as this Agreement shall be in force, it will have capital and surplus of not less than the amount necessary to comply with the Applicable Laws of its domiciliary jurisdiction. MNIC agrees to maintain reserves consistent with the Applicable Laws of any jurisdiction having regulatory authority over MNIC.

#### **ARTICLE IV.** **CLAIMS ADMINISTRATION**

(a) On and after the Assumption Effective Date, the Company will provide prompt notice to MNIC or its designee of all Claims for Post-Assumption Losses which may be received by or on behalf of the Company or its Affiliates, and MNIC or its designee will have the obligation to administer, investigate and defend, as applicable, at its own expense, any Claim for Post Assumption Losses. MNIC shall have no duty, responsibility or obligation to administer any Claims occurring prior to the Assumption Effective Date or arising from or in any way associated with a loss occurring before the Assumption Effective Date. At the request of MNIC or such designee, the Company will jointly associate with MNIC, at the expense of MNIC, in the defense or control of any Claim, suit or proceeding involving the Assumed Policies, and the Company shall reasonably cooperate with MNIC or such designee, at the expense of MNIC, in every respect to procure the most favorable disposition of such claim, suit or proceeding. For the avoidance of doubt, the Company shall remit any and all proceeds of any reinsurance on the Assumed Policies to MNIC, to the extent such reinsurance is not paid directly to MNIC, in connection with any Claim for Post-Assumption Loss that would otherwise constitute Inuring Reinsurance. There is no reinsurance expense reimbursement due from MNIC to Company from Closing until June 30, 2022.

(b) The Company grants to MNIC or one or more of MNIC's Affiliates designated by MNIC, as of the Assumption Effective Date, authority in all matters relating to the administration of the Assumed Policies and any Claims for Post-Assumption Losses covered by this Agreement, including the authority (i) to pay and adjust Claims for Post-Assumption Losses which may be received by or on behalf of the Company, and (ii) to communicate directly with policyholders and to collect on behalf of the Company unpaid Premiums attributed solely to the Assumed Policies on and after the Assumption Effective Date. In exercising such authorities, MNIC or any such Affiliate may delegate the performance of any duty described above to a third party; provided that no such delegation shall relieve MNIC of its obligations hereunder. Subject to the forgoing limitation, effective as of the Assumption Effective Date, the Company hereby appoints MNIC as its attorney-in-fact with respect to the rights, duties and privileges and obligations of the Company in and to the Assumed Policies, with full power and authority to act in the name, place and stead of the Company with respect to such contracts, including without limitation, the power to service such

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contracts, to adjust, defend, settle and to pay all Claims for Post-Assumption Losses, to recover salvage and subrogation for any Post-Assumption Losses incurred and to take such other and further actions as may be necessary or desirable to effect the transactions contemplated by this Agreement. As part of the foregoing, the Company grants full authority to MNIC to adjust, settle or compromise all Post-Assumption Losses hereunder, and all such adjustments, settlements and compromises shall be binding on the Company. The Company agrees, at MNIC's expense, to cooperate fully with MNIC in the transfer of such administration, and MNIC agrees to be responsible for such administration.

(c) MNIC shall maintain (directly or indirectly, via contract) sufficient resources and adequate staffing levels of personnel with appropriate experience to administer Claims for Post-Assumption Losses under the Assumed Policies in a professional manner in accordance with all Applicable Laws.

#### **ARTICLE V. REGULATORY MATTERS**

At all times during the term of this Agreement, the Company and MNIC shall hold and maintain all licenses and authorizations required under Applicable Law and otherwise take all actions that may be necessary to perform its obligations hereunder.

#### **ARTICLE VI. DUTY OF COOPERATION**

Each Party hereto shall cooperate fully with the other (and Company shall cause its vendors to cooperate) in all reasonable respects in order to accomplish the objectives of this Agreement, all at the expense of the requesting Party.

#### **ARTICLE VII. RESOLUTION OF DISPUTES**

(a) Except as otherwise provided in Section 3.1(a), any dispute arising out of the interpretation, performance or breach of this Agreement, including the formation or validity hereof, that the Parties are unable to resolve after good faith negotiations shall be submitted for decision to a panel of three arbitrators. The arbitration shall be conducted under the American Arbitration Association Commercial Arbitration Rules, except as may be specifically modified herein. Notice requesting arbitration shall be in writing and sent certified or registered mail, return receipt requested, or by overnight courier service, to the Party against whom relief is sought.

(b) Each Party shall choose one individual as an arbitrator and the two arbitrators shall then choose a third arbitrator who shall preside at the hearing. If either Party fails to appoint an arbitrator within thirty (30) days after being requested to do so by the other Party, the latter, after ten (10) days' notice by certified or registered mail or by overnight courier service of its intention to do so, may appoint the third arbitrator. If the two individuals are unable to agree upon the third arbitrator within thirty (30) days of their appointment, the third arbitrator shall be selected as follows: each arbitrator shall select three individuals and submit their names to the other arbitrator. In the event a name appears on both lists, that person shall be the third arbitrator. Otherwise, or in the event that more than one name appears on both lists, each arbitrator shall strike two from the other arbitrator's list. Of the two persons remaining, one shall be chosen as the third arbitrator by drawing lots.

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(c) Within thirty (30) days after the appointment of the third arbitrator, the arbitrators shall jointly determine timely periods for the filing of briefs with the panel, discovery procedures and schedules for hearings. The arbitrators shall be relieved of all judicial formalities and shall not be bound by the strict rules of law, but, rather, shall view this Agreement as an honorable engagement between the Parties. The arbitration shall take place in Tampa, Florida or such other location as mutually agreed upon by the parties. The decision of the majority of the arbitrators, when rendered in writing, shall be final and binding. The arbitrators are empowered to grant interim relief, as they may deem appropriate.

(d) The arbitrators shall make their decision considering the customs and practices of the applicable insurance and reinsurance business and as promptly as possible following the termination of hearings. Judgment upon the award may be entered in any court of competent jurisdiction.

(e) The Parties intend this Article to be enforceable in accordance with the Federal Arbitration Act (9 U.S.C. Section 1, et seq.), including any amendments to that Act which are subsequently adopted, notwithstanding any other choice of law provision set forth in this Agreement. In the event that either party refuses to submit to arbitration as required herein, the other Party may request the United States Federal District Court for the Middle District of Florida to compel arbitration in accordance with the Federal Arbitration Act. Both Parties consent to the jurisdiction of such court to enforce this article and to confirm and enforce the performance of any award of the arbitrators.

(f) Each Party shall bear the costs of its chosen arbitrator and, unless the panel awards otherwise, its own attorneys' fees, and jointly and equally bear, with the other Party, the costs of the third arbitrator and of the arbitration, including arbitrator travel and lodging, court reporters, room rental fees, et. al. The arbitrators may, in their discretion, award such further costs and expenses as they may consider appropriate, including attorneys' fees to the extent permitted by the Applicable Law governing the arbitration.

## **ARTICLE VIII. REPLACEMENT POLICIES**

### **Section 8.1     Right to Offer Replacement Policies and Renewals.**

(a) From and after the Assumption Effective Date, MNIC, in its name, is authorized to and may (directly or indirectly) solicit, quote, bind, write and/or issue, or cause to be solicited, quoted, bound, written and/or issued to any Company policyholder Replacement Policies upon the expiration, cancellation or anniversary of such policyholder's contract with the Company relating to the Assumed Policies, on the respective forms and rates of MNIC, subject to and in accordance with Applicable Law.

(b) MNIC shall offer to issue a Replacement Policy to each policyholder of the Assumed Policies, subject to MNIC's determination in its sole discretion that each such policyholder satisfies MNIC's underwriting and other criteria. For avoidance of doubt, the MNIC program closes with no more policy issuances on its rates and forms.

(c) Except as required by Applicable Law or the applicable Assumed Policies, neither the Company nor any of its Affiliates shall attempt to solicit, sell, write or issue any evidence of

insurance constituting the Assumed Policies that would have the effect of canceling any Assumed Policies prior to the end of their natural terms without the prior written consent of MNIC.

(d) The Company shall cause its Affiliates to cooperate with MNIC in connection with fulfilling its obligations and duties arising under this Agreement, and the Company will enter into and execute amendments to any contracts with such Affiliates as may be necessary or appropriate to fulfill the terms of this Agreement. At a minimum, such amendments shall cause such Affiliates to assign any right, title, or interest they may have to renewals in or to the Assumed Policies to MNIC and to release the Company and MNIC from any liability or claims for all or any portion of the Premiums.

(e) The Company covenants and agrees, from and after the date of execution of this Agreement, following written notice by MNIC to the Company, to provide to MNIC and its respective Representatives, to the extent permitted by Applicable Law and contractual obligations with third parties, reasonable access during normal business hours to the originals or copies of all books and records relating to the Assumed Policies (to the extent such books and records are not in the possession or control of MNIC or its Affiliates) and to reasonably make available to MNIC any such Representatives or employees of the Company or any of its Affiliates with knowledge thereof; provided, however, that MNIC shall not have access to or use, and will not permit any of its Affiliates or any of their respective Representatives, to have access to or use any of the items referred to in this Section 8.1 in a manner that would (i) cause the Company or its Affiliates to be in breach of any contract with any Person, and (ii) be in violation of any Applicable Law, including any applicable state or federal privacy laws.

#### **Section 8.2     Communications with Producers and Policyholders.**

From and after the date of execution of this Agreement, in all cases subject to Applicable Law, the Company shall make reasonably available during business hours and upon reasonable notice employees of the Company or its Affiliates reasonably requested by MNIC or its Representatives, to assist MNIC in retaining the Assumed Policies, including, without limitation, scheduling meetings and conference calls among the Company, MNIC and producers and sending communications (the content of which shall be subject to the Company's prior review and reasonable approval) to producers, the actual out-of-pocket allocable costs of which will be borne by MNIC or its Representatives, for the purpose of encouraging producers or policyholders to enter into contractual arrangements with MNIC or its Representatives from and after the Assumption Effective Date, as reasonably requested by MNIC. MNIC may use the names and marks of the Company in connection with its efforts to retain the Assumed Policies, subject to approval by the Company, such approval not to be unreasonably withheld.

#### **Section 8.3     Non-Solicitation With Respect to the Assumed Policies.**

(a) The Company agrees that, from and after the Assumption Effective Date, the Company shall not, directly or indirectly, solicit, market, offer, bind, enter into or issue insurance contracts, policies, treaties or slips for or relating to, the Assumed Policies. From and after the Assumption Effective Date, the Company shall not use or permit the use of Confidential Information by its Affiliates (in the case of Affiliates, only to the extent such Affiliates owe a fiduciary, contractual or implied duty of confidentiality to the Company with respect to such Confidential Information) or any other Person (except for MNIC or its designated Affiliates) to solicit, market, offer, bind enter into or issue insurance contracts, policies, treaties, slips for or relating to the Assumed Policies.



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(b) The Parties hereto acknowledge that the restrictions contained in this Section 8.3 were specifically negotiated to induce MNIC to enter into this Agreement and are reasonable and necessary to protect the legitimate interests of MNIC, that MNIC shall not have an adequate remedy at law for any actual or attempted breach or violation of this Section 8.3 and that MNIC, in addition to any other rights or remedies, shall be entitled to specific performance, injunctive and other equitable relief for any actual or attempted breach or violation, as well as reasonable attorneys' fees incurred in successfully enforcing the covenants in this Section 8.3 against any such actual or attempted breach or violation. Anything in this Agreement to the contrary notwithstanding, the rights of MNIC under this Section 8.3 shall inure to the benefit of any successor or assign of MNIC, including, without limitation, any Person acquiring, directly or indirectly, all or substantially all of the assets of MNIC, whether by merger, consolidation, sale or otherwise.

(c) The provisions of this Section 8.3 shall survive expiration or termination of this Agreement.

#### **ARTICLE IX.** **REGULATORY APPROVALS**

The Company and MNIC shall submit all necessary registrations, filings and notices with, and obtain all necessary consents, approvals, qualifications and waivers from, all Governmental Entities and other parties which may be required under Applicable Law as a result of the transactions contemplated by, or to perform its respective obligations under, this Agreement, including the Florida Office of Insurance Regulation. The Parties agree that where formal approval is required by any Governmental Entity, this Agreement shall not be effective as to any and all Assumed Policies in such jurisdiction until such approval is obtained.

#### **ARTICLE X.** **TERMINATION**

This Agreement shall not be subject to termination by any Party except (i) by written agreement between MNIC and the Company on the date indicated by such agreement, after receipt of any required approval from Governmental Entities, or (ii) at the election of MNIC in its sole discretion immediately upon any breach by the Company of its covenants, representations, warranties or conditions included in Article 2 or 3 that would have a material adverse effect on the transactions contemplated by this Agreement. In the event the transfer of the Unearned Premium Reserves to, or collection of Premiums by, MNIC is invalidated in its entirety or MNIC is otherwise ordered to return such funds to the Company or other Person, MNIC shall have no duty, obligation or liability to administer or pay any Post-Assumption Losses or Claims arising under the Assumed Policies. Notwithstanding anything in this Agreement to the contrary, in the event the Company for any reason fails to pay all or any portion of the UPR Transfer Amount, this Agreement may be terminated by MNIC retroactively as of the Assumption Effective Date, in which case MNIC shall promptly repay to the Company any and all of the UPR Transfer Amount which may have actually been paid by the Company under Section 3.1(a)(i), and MNIC shall have no duty, obligation or liability to administer or pay any Post-Assumption Losses or Claims arising under any policies that otherwise would have become Assumed Policies but for termination under this paragraph.

#### **ARTICLE XI.** **INDEMNIFICATION**

##### **Section 11.1 Indemnification Obligations.**

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Subject to the provisions of this Agreement, the Company, jointly and severally with its Affiliates (other than MNIC) agrees to indemnify and hold MNIC and its Affiliates, successors and assigns (and their respective officers, directors, employees and agents) harmless from and against, and in respect of all liabilities, damages, losses, costs or expenses, including attorneys' fees, resulting from or relating to a breach by the Company or any of its Affiliates of any covenant or agreement of the Company or any of its Affiliates in this Agreement and for Pre-Assumption Effective Date Liabilities.

**Section 11.2    Indemnification Obligations of MNIC.**

Subject to the provisions of this Agreement, MNIC agrees to indemnify and hold the Company and its Affiliates, predecessors, successors and assigns (and their respective officers, directors, employees and agents) harmless from and against and in respect of all liabilities, damages, losses, costs or expenses, including attorneys' fees, resulting from or relating to a breach by MNIC of any covenant or agreement of MNIC in this Agreement.

**ARTICLE XII.**  
**MISCELLANEOUS**

**Section 12.1    Notices.**

All notices, requests, demands and other communications hereunder shall be given in writing and shall be: (a) personally delivered; (b) sent by telecopier, facsimile transmission or other electronic means of transmitting written documents; or (c) sent to the Parties at their respective addresses indicated herein by registered or certified U.S. mail, return receipt requested and postage prepaid, or by private overnight mail courier service. The respective addresses to be used for all such notices, demands or requests are as follows:

(a)     If to MNIC, to:

Monarch National Insurance Company  
c/o Hale Partnership Capital Management  
3675 Marine Drive  
Greenville, NC 27834  
Attention: Steven Hale  
Phone No.: 336-552-6228  
Email: steve@halepartnership.com

with copies to:

Moore & Van Allen PLLC  
100 N. Tryon Street  
Suite 4700  
Charlotte, NC 28202  
Attention: Ryan M. Smith  
Phone No.: 704-331-3506  
Email: ryansmith@mvalaw.com

or to such other person or address as MNIC shall furnish to the Company in writing.

**[REDACTED]**

(b) If to the Company, to:

FedNat Insurance Company  
c/o FedNat Holding Company  
14050 NW 14<sup>th</sup> Street, Suite 180  
Sunrise, FL 33323  
Attention: Bruce F. Simberg, Chairman of the Board  
Email: bsimberg@fednat.com

with copy to

Nelson Mullins Riley & Scarborough LLP  
2 South Biscayne Boulevard, 21<sup>st</sup> Floor  
Miami, Florida 33131  
Attention: Nina S. Gordon  
Email: nina.gordon@nelsonmullins.com

or to such other person or address as the Company shall furnish to MNIC in writing.

If personally delivered, such communication shall be deemed delivered upon actual receipt; if electronically transmitted pursuant to this paragraph, such communication shall be deemed delivered the next business day after transmission (and sender shall bear the burden of proof of delivery); if sent by overnight courier pursuant to this paragraph, such communication shall be deemed delivered upon receipt; and if sent by U.S. mail pursuant to this paragraph, such communication shall be deemed delivered as of the date of delivery indicated on the receipt issued by the relevant postal service, or, if the addressee fails or refuses to accept delivery, as of the date of such failure or refusal. Any Party to this Agreement may change its address for the purposes of this Agreement by giving notice thereof in accordance with this Section.

**Section 12.2 Assignment; Parties in Interest.**

(a) Assignment. Except as expressly provided herein, the rights and obligations of a Party hereunder may not be assigned, transferred or encumbered without the prior written consent of the other Party.

(b) Parties in Interest. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by the Parties and their respective successors and permitted assigns. Except as provided in Section 3.2, nothing contained herein shall be deemed to confer upon any other Person any right or remedy under or by reason of this Agreement.

**Section 12.3 Waivers and Amendments; Preservation of Remedies.**

This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by each of the Parties or, in the case of a waiver, by the Party waiving compliance. No delay on the part of any Party in exercising any right, power or privilege hereunder shall, operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power, remedy or privilege, nor any single or partial exercise of any such right, power, remedy or privilege, preclude any further exercise thereof or the exercise of any other such right, remedy, power or privilege.

The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any Party may otherwise have under Applicable Law or in equity.

**Section 12.4 Governing Law; Venue.**

This Agreement shall be construed and interpreted according to the internal laws of the State of Florida excluding any choice of law rules that may direct the application of the laws of another jurisdiction. Subject to the parties' obligation to arbitrate any disputes in accordance with the provisions of Article 7, the Parties hereby stipulate that any action or other legal proceeding arising under or in connection with this Agreement may be commenced and prosecuted in its entirety in the federal or state courts sitting in Tampa, Florida, each Party hereby submitting to the personal jurisdiction thereof, and the Parties agree not to raise the objection that such courts are not a convenient forum. Process and pleadings mailed to a party at the address provided in Section 12.1 shall be deemed properly served and accepted for all purposes.

**Section 12.5 Counterparts.**

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**Section 12.6 Entire Agreement; Merger.**

This Agreement, and any exhibits, schedules and appendices attached hereto and thereto, together constitute the final written integrated expression of all of the agreements among the Parties with respect to the subject matter hereof and is a complete and exclusive statement of those terms, and supersede all prior or contemporaneous, written or oral, memoranda, arrangements, contracts and understandings between the Parties relating to the subject matter hereof. Any representations, promises, warranties or statements made by any Party which differ in any way from the terms of this Agreement or any applicable provisions contained in the Ancillary Agreements shall be given no force or effect. The Parties specifically represent, each to the other, that there are no additional or supplemental agreements or contracts between or among them related in any way to the matters herein contained unless specifically included or referred to in this Agreement. No addition to or modification of any provision of this Agreement or any applicable provisions of the Renewal Rights Agreement shall be binding upon either Party unless embodied in a dated written instrument signed by both Parties.

**Section 12.7 Exhibits and Schedules.**

All exhibits, schedules and appendices are hereby incorporated by reference into this Agreement as if they were set forth at length in the text of this Agreement.

**Section 12.8 Headings.**

The headings in this Agreement are inserted for convenience only and shall not constitute a part hereof.

**Section 12.9 Severability.**

If any part of this Agreement is contrary to, prohibited by, or deemed invalid under Applicable Law or regulations, that provision shall not apply and shall be omitted to the extent so contrary, prohibited, or invalid; but the remainder of this Agreement shall not be invalidated and shall be given full force and effect insofar as possible.

**CONFIDENTIAL**

**Section 12.10 Expenses.**

Regardless of whether or not the transactions contemplated in this Agreement are consummated, each of the Parties shall bear their own expenses and the expenses of its counsel and other agents in connection with the transactions contemplated hereby, except as otherwise expressly provided for in this Agreement.

**Section 12.11 Further Assurances.**

MNIC and the Company shall use commercially reasonable efforts to take, or cause to be taken, all actions or do, or cause to be done, all things or execute any documents necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement, subject to its terms; provided, however, that any such additional documents must be reasonably satisfactory to each of the Parties and not impose upon either Party any material liability, risk or obligation not contemplated by this Agreement.

**Section 12.12 Currency.**

The currency of this Agreement and all transactions under this Agreement shall be in United States Dollars.

(Signature Page Follows)

**TRADE SECRET**

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the day and year first written above.

**MONARCH NATIONAL INSURANCE COMPANY**

DocuSigned by:

*Michael H. Braun*

By: B517DEF81B3447D

Name: Michael H. Braun

Title: President

**FEDNAT INSURANCE COMPANY**

DocuSigned by:

*Michael H. Braun*

By: B517DEF81B3447D

Name: Michael H. Braun

Title: President

For purposes of Section 3.4(a) hereof:

**FEDNAT UNDERWRITERS, INC.**

DocuSigned by:

*J G Jennings III*

By: 7373FCCF32B542E...

Name: James G. Jennings III

Title: President



**FILED**

SEP 21 2022

INSURANCE REGULATION  
Docketed by: AB

OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER  
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 300808-22-CO

MONARCH NATIONAL INSURANCE COMPANY  
\_\_\_\_\_ /

CONSENT ORDER

THIS CAUSE came for consideration as a result of the Assumption Agreement ("Assumption Agreement") between FEDNAT INSURANCE COMPANY ("FEDNAT") and MONARCH NATIONAL INSURANCE COMPANY ("MONARCH") as approved in Consent Order Case Number 295638-22-CO and as amended by Case Number 297724-22-CO. A referral for the liquidation of FEDNAT has been presented to the Department of Financial Services on September 21, 2022. The FLORIDA OFFICE OF INSURANCE REGULATION ("OFFICE") wants to ensure that continuous and uninterrupted insurance coverage exists for the policyholders who are currently being provided coverage by MONARCH as a result of the Assumption Agreement. Upon the rendition of a final order of liquidation by the Leon County Circuit Court adjudicating FEDNAT insolvent and following a complete review of the record, and upon consideration thereof, and being otherwise fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the subject matter and the parties herein.
2. MONARCH entered into an Assumption Agreement with FEDNAT wherein MONARCH assumed approximately 78,000 FEDNAT Florida policies effective June 1, 2022.

3. MONARCH has received all unearned premium reserves to which it was entitled under the terms of the Assumption Agreement.

4. MONARCH has assumed all of the liabilities for the assumed policies from the effective date of June 1, 2022 forward, including all policyholder claims under assumed policies which occurred on or after June 1, 2022.

5. All policyholder claims which occurred on or after June 1, 2022 are the responsibility of MONARCH for the adjusting, defense, and payment of such claims.

6. If MONARCH determines that an assumed policyholder claim occurred prior to June 1, 2022 after its adjustment of that claim, MONARCH will provide all claims documents to FEDNAT, and/or to its statutory successor(s) in interest and to the Florida Insurance Guaranty Association ("FIGA"). FEDNAT, and/or its statutory successor(s) in interest or FIGA will indemnify Monarch, as appropriate, for any expenses incurred in connection with that claim, including any defense costs, investigation and adjustment expenses, and/or any court-ordered payments associated with that claim.

7. MONARCH agrees that it will not contest its responsibility for policyholder claims arising on the assumed policies which occurred on or after June 1, 2022.

8. If a claim is presented to FEDNAT, and/or to its statutory successor(s) in interest or to FIGA for an assumed policyholder claim which occurred on or after June 1, 2022, and so long as FEDNAT, and/or its statutory successor(s) in interest or FIGA agree to the indemnification provisions in paragraph 6, MONARCH will indemnify FEDNAT, and/or its statutory successor(s) in interest and/or FIGA, as appropriate, for any expenses incurred in connection with that claim, including any defense costs, investigation and adjustment expenses, and/or any court-ordered payments associated with that claim.



9. Any prior orders, consent orders, or corrective action plans that MONARCH has entered into with the OFFICE prior to the execution of this Consent Order shall apply and remain in full force and effect for MONARCH, 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.

10. In the event FEDNAT is not declared insolvent, and a final order of liquidation is not entered by the Leon County Circuit Court, the provisions of this Consent Order will be void, and all prior Orders of the OFFICE for MONARCH shall control.

11. 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 approval must be requested in writing prior to any proposed deviation from the terms of this Consent Order.

12. MONARCH expressly waives 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 it may be entitled by law or rules of the OFFICE. MONARCH hereby knowingly and voluntarily waives all rights to challenge or to contest this Consent Order in any forum available to it, now or in the future, including the right to any administrative proceeding, state or federal court action, or any appeal.

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

14. MONARCH agrees 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 MONARCH's Certificate of Authority in this state in accordance with Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

15. 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 notarized signature of the authorized representative of MONARCH.

WHEREFORE, subject to the requirements, terms, and conditions detailed above, MONARCH NATIONAL INSURANCE COMPANY agrees to be bound by the findings detailed above.

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

DONE and ORDERED on this 21<sup>st</sup> day of September, 2022.



*David Altmaier*  
David Altmaier, Commissioner  
Office of Insurance Regulation

By execution hereof, MONARCH NATIONAL INSURANCE COMPANY, 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 represent that they have the authority to bind MONARCH NATIONAL INSURANCE COMPANY to the terms and conditions of this Consent Order.

MONARCH NATIONAL INSURANCE COMPANY

By: [Signature]

Name: David Lockhart

Title: President & CEO

STATE OF FLORIDA  
COUNTY OF BROWARD

The foregoing instrument was acknowledged before me by means of X physical presence or \_\_\_\_\_ online notarization, this 21<sup>st</sup> day of September 2022, by DAVID LOCKHART as President's CEO for MONARCH NATIONAL INS. CO.

[Signature]  
Signature of Notary

JAMES GORDON JENNINGS III  
Print, Type or Stamp Commissioned Name of Notary

Personally Known X OR Produced Identification \_\_\_\_\_

Type of Identification Produced \_\_\_\_\_

My Commission Expires: 12/16/2025



COPIES FURNISHED TO:

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119 East Park Avenue  
Tallahassee, Florida 32301  
(850) 577-0398  
Email: [wstrickland@colodnyfass.com](mailto:wstrickland@colodnyfass.com)

DAVID LOCKHART, PRESIDENT AND CHIEF FINANCIAL OFFICER  
Monarch National Insurance Company  
6265 Old Water Oak Road, Suite 204  
Tallahassee, Florida 32312

VIRGINIA A. CHRISTY, DIRECTOR  
Property & Casualty Financial Oversight  
Florida Office of Insurance Regulation  
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Tallahassee, Florida 32399  
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## OFFICE OF INSURANCE REGULATION

**DAVID ALTMAIER**  
COMMISSIONER

**FINANCIAL SERVICES  
COMMISSION**

**RON DESANTIS**  
GOVERNOR

**JIMMY PATRONIS**  
CHIEF FINANCIAL OFFICER

**ASHLEY MOODY**  
ATTORNEY GENERAL

**NICOLE "NIKKI" FRIED**  
COMMISSIONER OF  
AGRICULTURE

September 21, 2022

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

Re: FedNat Insurance Company

Dear Chief Financial Officer Patronis:

Pursuant to Chapter 631, Florida Statutes, the Office of Insurance Regulation ("OIR") 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 FedNat Insurance Company ("Company"). Attached to this letter, please find an affidavit setting forth the grounds specified including the date the Company was deemed impaired or insolvent as those terms are defined in Section 631.011, a concise statement of the circumstances that led to the delinquency, and a summary of the actions taken by the Company and the OIR to avoid delinquency, along with a consent to order of receivership signed by the Company so that the Department can promptly initiate those proceedings.

As always, the OIR stands ready to provide any additional information or assistance the Department needs in order for this matter to proceed as expeditiously as possible. OIR currently has an examiner onsite at the Company who can be made available to the Department in any way you need. 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

Exhibit C

...

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

Affirmative Action / Equal Opportunity Employer

**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. FedNat Insurance Company (hereinafter referred to as "FedNat") 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, (170) Other Liability, (192) Private Passenger Auto Liability, and (211) Boiler and Private Passenger Auto Physical Damage pursuant to Part III of Chapter 624, Florida Statutes.

6. As a licensed insurer, FedNat is subject to the regulation of the Office pursuant to the Florida Insurance Code.

### **BACKGROUND**

7. FedNat received an active Certificate of Authority in Florida on August 30, 2001 in the name of American Vehicle Insurance Company. Through a series of transactions subsequent to receiving its license, including name changes, the Certificate of Authority is now in the name of FedNat.

8. FedNat is 100% owned by FedNat Holding Company (hereinafter referred as "FedNat Holdings") which is a Florida Corporation whose common stock is publicly traded on the NASDAQ stock exchange.

### **CIRCUMSTANCES THAT LED TO THE DELINQUENCY OF FEDNAT AND ACTIONS TAKEN BY THE INSURER AND THE OFFICE TO AVOID DELINQUENCY**

9. As a result of the review of FedNat's December 31, 2019 financial statement, filed with the Office on March 1, 2020, which reflected a significant drop in net income and surplus since prior year end and negative underwriting results totaling (\$38,816,155) along with continued adverse reserve development due to numerous catastrophic weather events in Florida, Texas, Louisiana, and other states, the Office required FedNat to file monthly financial statements beginning with its March 2020 period-end. Each monthly financial statement was due on the 21<sup>st</sup> day of the month following the prior period month end. In addition, the Office, starting on October 22, 2020, began to have bi-weekly calls with FedNat's management to address and monitor its

trends and commence discussions regarding its declining financial results. FedNat's financial position continued to deteriorate; the Company reported underwriting losses of (\$96,636,868) as of December 31, 2020, and (\$109,709,531) as of December 31, 2021. Additionally, the Company's surplus as regards policyholders continued to decline despite significant capital infusions. In 2020, the Company received \$25 million in capital support, yet its surplus declined from \$141,783,438 as of December 31, 2019 to \$105,920,204 as of December 31, 2020. In 2021, the Company received \$83 million in capital support, yet its surplus declined to \$99,369,123 as of December 31, 2021.

10. On April 21, 2022, in light of FedNat's continued surplus decline, poor operational results, limited access to additional capital, and its jeopardized financial stability rating, the Office issued Consent Order 294507-22-CO, attached as Exhibit A, which imposed remedial measures and required the company to file a strategic plan (hereinafter referred to as "the plan") as outlined in the Consent Order (See, paragraph 6, Exhibit A).

11. On May 13, 2022, after careful consideration of FedNat's strategic plan, and in light of the fact that the plan did not include additional funding into FedNat, the Office issued Consent Order 295625-22-CO, attached as Exhibit B. The Consent Order included the extraordinary remedy of the early cancellation of approximately 56,500 of the approximately 140,000 personal residential policies in-force in Florida. The remaining policies, approximately 83,000, were to be assumed by Monarch National Insurance Company (hereinafter referred to as "Monarch"). This Consent Order imposed additional remedial measures on FedNat regarding its continued operations, the purpose of which was to effectuate a solvent runoff.

12. On May 23, 2022, in furtherance of the plan, the Office approved by Consent Order 295638-22-CO, attached as Exhibit C, the direct acquisition of more than 50% of the outstanding



voting securities of Monarch. The terms of the Consent Order 295638-22-CO required that the transaction close by no later than June 1, 2022 (See paragraph 20, Exhibit C) and was amended by Consent Order 297724-22-CO, attached as Exhibit D, to extend that date to June 30, 2022 along with approval of additional documents not provided in the original application. The transaction closed on June 30, 2022.

13. On August 9, 2022, the Office received proforma cash flow projections in support of FedNat's plan for a solvent runoff of its remaining liabilities.

14. On August 11, 2022, the Office approved by Consent Order 297127-22-CO, attached as Exhibit E, the remainder of the plan which included the approval of the merger of Maison Insurance Company with and into FedNat. The merger provided additional surplus to facilitate the solvent runoff of FedNat.

15. On September 13, 2022, the Office was notified by a representative of FedNat that, despite all the filings, proformas, and documentation provided to the Office to support the plan, the reliance upon which supported a solvent runoff of the remaining liabilities of FedNat, its proforma cashflow projections both grossly underestimated cash outflows and overestimated reinsurance recoveries, thereby overstating projected cash balances. As a result, the cash flow projections provided to the Office to support the solvent runoff were materially incorrect. FedNat reported that it had inadequate resources to fund a solvent runoff.

16. On September 14, 2022, the Office sent an examiner to be onsite at FedNat to protect the assets of FedNat and to determine the true financial position of FedNat.

17. On September 14, 2022, the Office held a conference call with the management of FedNat who admitted it is insolvent because it is unable to pay its debts as they come due in the normal course of business.

18. On September 19, 2022, FedNat provided to the Office an executed Consent to Order of Receivership, hereinafter referred to as "Consent". A true and correct copy of the Consent is attached hereto as Exhibit F and hereby incorporated by reference. The Consent admits that grounds exist for the appointment of a Receiver of FedNat for Rehabilitation or Liquidation pursuant to Sections 631.051 and 631.061, Florida Statutes, and specifically admits that it is insolvent as that term is defined in Section 631.011(14), Florida Statutes (See Exhibit F)

19. The Office has determined that grounds exist for the Department of Financial Services, Division of Rehabilitation and Liquidation (hereinafter referred to as "Department") to petition for an order, under Section 631.051 or 631.061, Florida Statutes, directing the Department to rehabilitate FedNat or appointing the Department as receiver for purposes of liquidating the business of FedNat. The three bases for this determination are summarized as follows:

**BASIS ONE: FEDNAT IS INSOLVENT OR ABOUT TO BECOME INSOLVENT**  
**Authority: §§ 631.051(1) and 631.061(2) Fla. Stat.**

20. 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 or the insurer is unable to pay its debts as they become due in the normal course of business.

21. FedNat was deemed insolvent on September 14, 2022, because it is unable to pay its debts as they become due in the normal course of business.

**BASIS TWO: FURTHER TRANSACTION OF INSURANCE BY FEDNAT IS  
HAZARDOUS TO POLICYHOLDERS, CREDITORS, STOCKHOLDERS,  
OR THE PUBLIC**  
**Authority: §631.051(3), Fla. Stat.**

22. Based on the above, the Office has determined that FedNat is operating in an unsound condition that is hazardous to policyholders, creditors, stockholders, and the public.

**BASIS THREE: CONSENT TO REHABILITATION OR LIQUIDATION**

**Authority: §631.051(11), Fla. Stat.**

23. On September 19, 2022, FedNat executed a Consent to Order of Receivership for the appointment of the Department as Receiver. (See, Exhibit F). In the Consent, FedNat specifically admits that it is insolvent as that term is defined in Section 631.011(14), Florida Statutes (See, Exhibit F, paragraph 3).

24. 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 F, paragraph 2).

25. The Consent states as follows:

Pursuant to Sections 631.051 and 631.061 (on grounds of consent), Florida Statutes, Respondent consents through a majority of its directors, to the entry of an Order of Liquidation, appointing the Florida Department of Financial Services [hereinafter, the “Department”] as the Receiver for Respondent, for purposes of liquidation, with the determination of the type of order to be sought and entered to be made at the sole discretion of the Department, and consents to any injunctions the receivership court, as defined by Section 631.021, deems necessary and appropriate, without the necessity of any hearing by the court.

Exhibit F, paragraph 4.

26. Further, the Consent states:

Respondent further waives any right to appeal the order entered by the receivership court as to the appointment of the Department as Receiver pursuant to Chapter 631, Part I, Florida Statutes, and agrees that said order shall be a final order.

Id.

## **CONCLUSION**

As set forth above, FedNat Insurance Company is 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(2), Florida Statutes.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

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 21<sup>st</sup> day of September 2022, by Virginia Christy  
(name of person)  
as Director, Property & Casualty Financial Oversight for Florida Office of Insurance Regulation  
(type of authority; e.g., officer, trustee, attorney in fact) (company name)



Amy Yvonne Harder  
NOTARY PUBLIC  
STATE OF FLORIDA  
Comm# GG851578  
Expires 3/18/2024

Amy Yvonne Harder  
(Signature of the Notary)

Amy Yvonne Harder  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification ☐

Type of Identification Produced \_\_\_\_\_

My Commission Expires 3/18/2024

## **CONSENT TO ORDER OF RECEIVERSHIP**

### **FEDNAT INSURANCE COMPANY**

#### **IT IS HEREBY AGREED TO AS FOLLOWS:**

1. FedNat Insurance Company (hereinafter "Respondent") is a Florida corporation and is a domestic property and casualty insurer authorized to transact insurance business in Florida and regulated by the Florida Office of Insurance Regulation.
2. Respondent admits that grounds exist for the appointment of a Receiver of the company for Liquidation pursuant to Sections 631.051 and 631.061, Florida Statutes.
3. Respondent specifically admits that it is insolvent as that term is defined in Section 631.011(14), Florida Statutes.
4. Pursuant to Sections 631.051 and 631.061, Florida Statutes, Respondent consents through a majority of its directors, to the entry of an Order of Liquidation, appointing the Florida Department of Financial Services, [hereinafter "the Department"] as the Receiver for Respondent, for purposes of liquidation, with the determination of the type of order to be sought and entered to be made at the sole discretion of the Department, and consents to any injunctions the receivership court, as defined by Section 631.021, deems necessary and appropriate, without the necessity of any hearing by the court. Respondent further waives any right to appeal the order entered by the receivership court as to the appointment of the Department as Receiver

pursuant to Chapter 631, Part I, Florida Statutes, and agrees that said order shall be a final order. The Resolution of the Board of Directors is attached as Attachment A to this Consent.

By execution hereof, FEDNAT INSURANCE COMPANY consents to the appointment of the Department of Financial Services as receiver for purposes of liquidation, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that they have the authority to bind FEDNAT INSURANCE COMPANY to the terms and conditions of this Consent to Order of Receivership.

FEDNAT INSURANCE COMPANY

By:

Print Name: Erick Fernandez

Title: Director

Date:

[Corporate Seal]

STATE OF Florida

COUNTY OF Broward

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

or ☐ online notarization, this 15<sup>th</sup> day of September 2022, by Erick Fernandez  
(name of person)  
as Director for FedNat Insurance Company  
(type of authority; e.g., officer, trustee, attorney in fact) (company name)



(Signature of the Notary)

(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification  
Type of Identification Produced  
My Commission Expires

**RESOLUTION OF THE BOARD OF DIRECTORS OF  
FedNat Insurance Company  
ATTACHMENT A**

A telephonic meeting of the Board of Directors of FedNat Insurance Company (hereinafter "the Company") was held on September 15, 2022, for the sole purpose of approving the following resolutions as follows:

RESOLVED that the majority of the current Directors on the Board of Directors consent to the referral of the Company by the Florida Office of Insurance Regulation to the Department of Financial Services for delinquency proceedings under Chapter 631, Part I, Florida Statutes due to the insolvency of the Company as defined in Section 631.011(14), Florida Statutes.

FURTHER RESOLVED that the majority of the current Directors on the Board of Directors consent to the entry of an Order of Liquidation of the Company.

FURTHER RESOLVED, that pursuant to Sections 631.051 and 631.061, Florida Statutes, the majority of the current Directors on the Board of Directors consent to the immediate appointment of the Florida Department of Financial Services, Division of Rehabilitation (hereinafter "Department") as the Receiver of Company, without further notice or hearing, and waive any and all rights to notice and hearing.

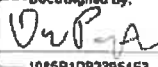
FURTHER RESOLVED, that the majority of the Directors waive any right to appeal any Order of Liquidation entered by the court and agrees that said Order shall be final for the purposes of triggering the Florida Insurance Guaranty Association "FIGA" pursuant to Section 631.54(8), Florida Statutes.

FURTHER RESOLVED, that the Treasurer of the company, Erick Fernandez, is hereby authorized to execute any and all consent agreements or documents on behalf of the Company, and are authorized to take any and all additional actions, including the Consent to Receivership under Chapter 631, Part I, Florida Statutes, as deemed necessary or appropriate by the Office of Insurance Regulation and/or the Department, without further approval of the shareholders or directors.



Director of FedNat Insurance Company

By: \_\_\_\_\_

DocuSigned by:  
  
1085B1DB23954E3...

[Corporate Seal]

Print Name: David Patterson \_\_\_\_\_

Title: Interim President and Director \_\_\_\_\_

Date: 9/15/2022 \_\_\_\_\_

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

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

or ☐ online notarization, this \_\_\_\_ day of \_\_\_\_\_ 2022, by \_\_\_\_\_

(name of person)

as \_\_\_\_\_ for \_\_\_\_\_.

(type of authority; e.g., officer, trustee, attorney in fact)

(company name)

\_\_\_\_\_  
(Signature of the Notary)

\_\_\_\_\_  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known \_\_\_\_\_ OR Produced Identification \_\_\_\_\_

Type of Identification Produced \_\_\_\_\_

My Commission Expires \_\_\_\_\_

Director of FedNat Insurance Company

By: [Signature]

[Corporate Seal]

Print Name: Erick Fernandez

Title: Director

Date: 9/15/2022

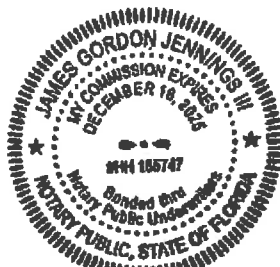
STATE OF Florida

COUNTY OF Broward

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

or ☐ online notarization, this 15<sup>th</sup> day of September 2022, by Erick Fernandez  
(name of person)

as Director \_\_\_\_\_ for FedNat Insurance Company  
(type of authority; e.g., officer, trustee, attorney in fact) (company name)



[Signature]  
(Signature of the Notary)

(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification

Type of Identification Produced \_\_\_\_\_

My Commission Expires \_\_\_\_\_

Director of FedNat Insurance Company

By: Brian Gardner

[Corporate Seal]

Print Name: Brian Gardner — (KS)

Title: Director — (KS)

Date: 9/17/2022

STATE OF Maine

COUNTY OF Kennebec

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

or ☐ online notarization, this 17 day of September 2022, by Brian Gardner

as Director (KS) for FedNat Insurance Company (KS)  
(type of authority; e.g., officer, trustee, attorney in fact) (company name)

**KELSIE SPRINGER**  
NOTARY PUBLIC  
State of Maine  
My Commission Expires  
August 4, 2029

Kelsie Springer  
(Signature of the Notary)

Kelsie Springer  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known \_\_\_\_\_ OR Produced Identification \_\_\_\_\_

Type of Identification Produced \_\_\_\_\_

My Commission Expires \_\_\_\_\_

Director of FedNat Insurance Company

By: \_\_\_\_\_

DocuSigned by:  
  
1F51A3C74F754DC.

[Corporate Seal]

Print Name: Doug Raucy \_\_\_\_\_

Title: Director \_\_\_\_\_

Date: 9/15/2022 \_\_\_\_\_

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

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

or ☐ online notarization, this \_\_\_\_ day of \_\_\_\_\_, 2022, by \_\_\_\_\_

(name of person)

as \_\_\_\_\_

for \_\_\_\_\_

(type of authority; e.g., officer, trustee, attorney in fact)

(company name)

\_\_\_\_\_  
(Signature of the Notary)

\_\_\_\_\_  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known \_\_\_\_\_ OR Produced Identification \_\_\_\_\_

Type of Identification Produced \_\_\_\_\_

My Commission Expires \_\_\_\_\_

Director of FedNat Insurance Company

[Corporate Seal]

By: \_\_\_\_\_

Print Name: J. G. Jennings III \_\_\_\_\_

Title: Director \_\_\_\_\_

Date: 9/15/2022

STATE OF Florida \_\_\_\_\_

COUNTY OF Broward \_\_\_\_\_

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

or ☐ online notarization, this \_\_\_\_ day of \_\_\_\_\_ 2022, by \_\_\_\_\_  
(name of person)  
as Director for FedNat Insurance Company  
(type of authority; e.g., officer, trustee, attorney in fact) (company name)

*Petrona M. Alexander*  
(Signature of the Notary)

Petrona M. Alexander  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification \_\_\_\_\_

Type of Identification Produced \_\_\_\_\_

My Commission Expires 01-29-2026

