

CERTIFICATION

June 26, 2013

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

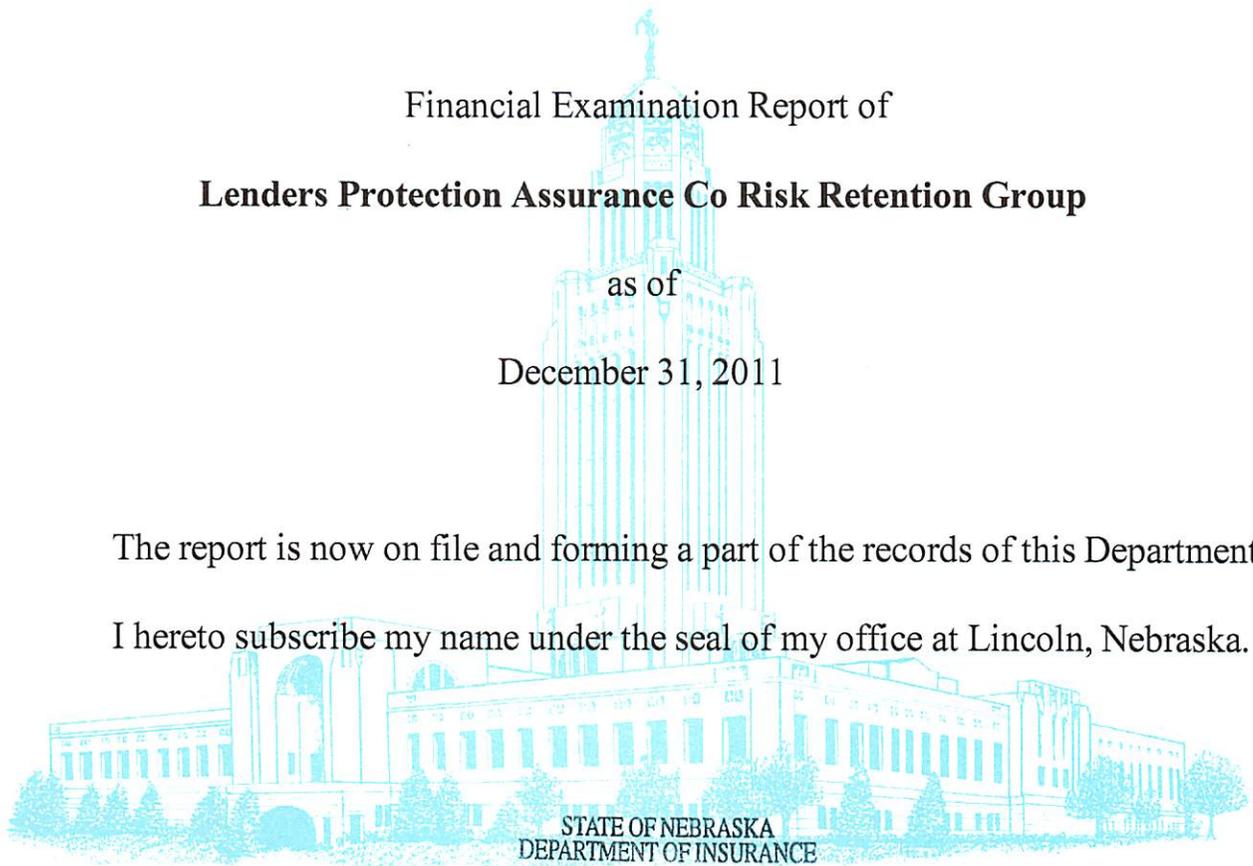
Financial Examination Report of
Lenders Protection Assurance Co Risk Retention Group

as of

December 31, 2011

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

JUN 25 2013

FILED



Bruce R. Ramage
DIRECTOR OF INSURANCE

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

LENDERS PROTECTION ASSURANCE COMPANY

RISK RETENTION GROUP

as of

December 31, 2011



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Omaha, Nebraska
June 1, 2013

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Division of Insurance
1511 Pontiac Avenue, Bldg #69-2
Cranston, Rhode Island 02920

Honorable John M. Huff
Chair, Midwestern Zone, NAIC
Director of Insurance
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sirs:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

Lenders Protection Assurance Company Risk Retention Group
1212 North 96th Street
Omaha, Nebraska 68114

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2007 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2011, and includes such subsequent events and transactions as were

considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Nebraska-domiciled companies, Central States Health & Life Co. of Omaha and Censtat Casualty Company of Omaha, which although not affiliated have common management.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The

minutes of the meetings of the shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by McGladrey & Pullen, LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2011. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was organized under the laws of the State of Nebraska and issued a Permit to Complete Organization on May 30, 2002. On May 31, 2002, the Company's Articles of Incorporation were filed and approved by the Nebraska Department of Insurance and filed with the Secretary of State. On August 16, 2002, the Department of Insurance granted the Company a Certificate of Authority to write liability insurance.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person", as reported in the 2011 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Lenders Mutual Benefit Association
Lenders Protection Assurance Company Risk Retention Group

Shareholder

The Articles of Incorporation, approved by the Nebraska Department of Insurance and filed with the Secretary of the State of Nebraska on May 31, 2002, provide that, "the aggregate number of shares which the Company shall have the authority to issue is 2,000,000 shares, consisting only of common stock, with a par value of \$1.00 per share". At the date of

this examination, 1,000,000 shares were issued and outstanding, and all were owned and held by Lenders Mutual Benefit Association.

The By-Laws provide that, “all annual meetings of the shareholders shall be held at the Principal Office of the Company in Omaha, Nebraska, or at such other place as determined by the Board of Directors and stated in the notice to shareholders”. The annual meeting shall be held no later than June 30 of each year every calendar year.

No cash dividends have been paid during the period under examination.

Board of Directors

The Company’s By-Laws provide that, “the property and business of this Company shall be managed by its Board of Directors, the number of which shall be between five and twenty-one, as determined from time to time by the Board of Directors. At the first annual meeting of the shareholders and at each annual meeting thereafter, the shareholders shall elect directors to hold office until the next succeeding meeting”.

The following persons were serving as Directors at December 31, 2011:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Richard T. Kizer Omaha, Nebraska	Chairman of the Board and Secretary of Central States Health & Life Co. of Omaha and Chairman of the Company
John E. Kizer Omaha, Nebraska	Chairman and President of Central States Indemnity of Omaha
Thomas E. Kizer Omaha, Nebraska	President of Central States Health & Life Co. of Omaha and President of the Company
William M. Kizer Omaha, Nebraska	Treasurer of Central States Indemnity Co. of Omaha
Jeffrey J. Wanning Omaha, Nebraska	Senior Vice President, Operations of Central States Health & Life Co. of Omaha and Vice President of the Company

Officers

The Company's By-Laws provide that, "the Officers of the Company shall be a Chairman of the Board, a President, Vice Presidents, the number thereof (if any) to be determined by the Board of Directors, a Treasurer and a Secretary, or other Officers as may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except that the President and Secretary shall not be the same person. The Officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders or as soon thereafter as convenient and vacancies may be filled at any meeting of the Board of Directors. Each Officer shall hold office until a successor shall have been fully elected and shall have been qualified or until his death, or until he shall resign or shall have been removed in a manner here provided".

The following is a listing of Officers elected and serving the Company at December 31, 2011:

<u>Name and Residence</u>	<u>Office</u>
Richard T. Kizer	Chairman of the Board
Thomas E. Kizer	President
Ronald L. Wheeler	Treasurer
Rebecca L. Smart	Secretary
Jaime Amodeo	Vice President
Jacquelyn C. McCaslin	Vice President
Jeffrey J. Wanning	Vice President & Assistant Secretary

Committees

The Company's By-Laws provide that, "the Board of Directors shall designate from their own number an executive committee and such other committees as in their sole discretion they shall deem necessary and appropriate".

The following persons were serving on the Audit Committee at December 31, 2011:

John E. Kizer	Richard T. Kizer
Thomas E. Kizer	William M. Kizer
Jeffrey J. Wanning	

The following persons were serving on the Risk Management Committee at December 31, 2011:

Richard T. Kizer	Thomas E. Kizer
Jacquelyn C. McCaslin	Jeffrey J. Wanning

TRANSACTIONS WITH AFFILIATES

Tax Allocation Agreement

The Company is a party to a tax allocation agreement with its parent, Lenders Mutual Benefit Association. Under this agreement, the consolidated tax liability of the Company and its parent is allocated to the parties on the percentage the separate return tax bears to the consolidated tax. If for any taxable period the separate liability of either member exceeds the consolidated tax liability as a result of any excess loss or tax credits of either party, the parent shall pay each member its allocated portion of such excess amount.

Fee Arrangement

The agreement provides that the Company will pay its parent a fee of \$10 for each debt protection product sold under a specified debt protection program as consideration for the business leads and expenses of the parent related to the tracking of those leads.

TRANSACTIONS WITH NON-AFFILIATES

Service Agreement

An administration agreement with Censtat Casualty Company (CCC) provides for administration of the Company's reinsured policies by CCC. The services provided by CCC include claims administration, premium administration, maintenance of books, accounts and

records, electronic data processing, policyholder services, finance and accounting, office services, and all services incidental to the administration of the administered policies.

All monies collected by CCC on behalf of the Company are held in a fiduciary capacity.

CCC has agreed to indemnify, defend and hold harmless the Company and its Directors, Officers, and agents against any action or omission arising out of any of its performances under this agreement. Likewise, the Company agrees to indemnify, defend and hold harmless CCC against any action or omission arising out of its performance of its obligations under this agreement.

The initial period of this agreement was for five years beginning on the effective date of September 1, 2002. It will automatically renew for successive five-year periods unless either party provides notice of cancellation at least twelve months in advance of the expiration date. Its most recent renewal was September 1, 2012.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in Nebraska and is registered to do business in all 50 states of the United States, and the District of Columbia, with the exception of California, Florida, New York, North Carolina, and Wisconsin.

The Company is a Risk Retention Group which markets contractual liability insurance. It can only insure members of its owner, Lenders Mutual Benefit Association (LMBA), a Nebraska company. Membership in LMBA is limited to entities that are permitted to provide debt cancellation products to their borrowers, and that agree to purchase a contractual liability policy from the Company.

REINSURANCE

Ceded

The Company cedes Contractual Liability Policies (CLPs) to Censtat Casualty Company (CCC) under a 100% Quota Share Treaty. This agreement was effective September 1, 2002 and automatically renewed on September 1, 2007, per the terms of the contract. The policies under this reinsurance agreement are CLPs issued by the Company with effective dates of December 31, 2004 and before with the exception of liability for debt protection products sold through the Secure Pay Plus program. The ceding fee retained by the Company is 3% of ceded premium. Effective October 1, 2012, this treaty was amended to include CLPs issued by the Company with effective dates of January 1, 2005 and after and CLPs sold in connection with the Company's Secure Pay Plus Program with effective dates of January 1, 2005 and after.

Effective January 1, 2005, the Company began ceding new business to Central States Indemnity Co. of Omaha (CSI), under a 100% Quota Share Treaty. The reinsured policies are CLPs issued by the Company with effective dates of January 1, 2005 and after and liability for debt protection products sold through the Secure Pay Plus program with effective dates of January 1, 2005 and after. CSI retroceded the business to CCC. CCC continues to administer the business. The ceding fee retained by the Company is 3% of ceded premium. Effective October 1, 2012, this treaty was terminated and the business ceded thereunder was assumed by CCC under the Quota Share Treaty between the Company and CCC.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bonds	\$2,114,699	\$1,875,636	\$2,205,016	\$2,079,937
Admitted assets	2,523,596	2,565,940	2,649,593	2,481,429
Loss reserves	0	0	0	0
Total liabilities	213,757	220,431	276,989	103,982
Capital and surplus	2,309,839	2,345,509	2,372,605	2,377,446
Premiums earned	0	0	0	0
Net investment income	92,399	67,141	82,062	84,808
Losses incurred	0	0	0	0
Net income	47,101	35,124	27,096	4,842

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2011 and its transactions during the year 2011 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT

December 31, 2011

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$2,079,937		\$2,079,937
Cash and short-term investments	<u>294,197</u>		<u>294,197</u>
Subtotal, cash and invested assets	\$2,374,134		\$2,374,134

Investment income due and accrued	\$ 22,685	\$ 22,685
Uncollected premiums and agents' balances in the course of collection	81,926	81,926
Due from Central States Health & Life DCC administration	<u>2,685</u>	<u>2,685</u>
Totals	<u>\$2,481,429</u>	<u>\$2,481,429</u>

Liabilities, Surplus, and Other Funds

Other expenses		\$ 2,102
Taxes, licenses and fees		20,188
Current federal and foreign income taxes		652
Ceded reinsurance premiums payable		79,114
Payable to Censtat Services		<u>1,927</u>
Total liabilities		<u>\$ 103,982</u>
Common capital stock		\$1,000,000
Gross paid in and contributed surplus		1,300,000
Unassigned funds (surplus)		<u>77,446</u>
Total capital and surplus		<u>\$2,377,446</u>
Totals		<u>\$2,481,429</u>

STATEMENT OF INCOME – 2011

Underwriting Income

Other underwriting expenses incurred	\$ 79,898
Special fee expense	3,083
Fines/penalties and interest expense	<u>777</u>
Total underwriting deductions	<u>\$ 83,758</u>
Net underwriting gain	<u>\$(83,758)</u>

Investment Income

Net investment income earned	\$ 74,760
Net realized capital gain	<u>10,048</u>
Net investment gain	<u>\$ 84,808</u>

Other Income

Special fee miscellaneous income	<u>\$ 3,083</u>
Total other income	<u>\$ 3,083</u>
Net income before dividends to policyholders and federal income taxes	\$ 4,133
Federal income taxes incurred	<u>(709)</u>
Net income	<u>\$ 4,842</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital and surplus, beginning	<u>\$2,234,522</u>	<u>\$2,309,839</u>	<u>\$2,345,509</u>	<u>\$2,372,605</u>
Net income	\$ 47,101	\$ 35,124	\$ 27,096	\$ 4,842
Change in net deferred income tax	(7,114)	(1,446)	(534)	(350)
Change in nonadmitted assets	35,330	1,552	974	350
Nonadmitted uncollected premium	<u> </u>	<u>440</u>	<u>(440)</u>	<u> </u>
Net change for the year	<u>\$ 75,317</u>	<u>\$ 35,670</u>	<u>\$ 27,095</u>	<u>\$ 4,842</u>
Capital and surplus, ending	<u>\$2,309,839</u>	<u>\$2,345,509</u>	<u>\$2,372,605</u>	<u>\$2,377,446</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$77,446, as reported in the Company's 2011 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Investment Approvals – Authorization and approval of investment should be handled in a manner consistent with Neb. Rev. Stat. § 44-5105(3)(a), which require that the Board, on no less than a quarterly basis, receive and review a summary report on the insurer's investment portfolio, investment activities, and investment practices engaged in under

delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Investments – Custodial Agreements

During review of the custodial agreements, it was noted that the custodial agreement with First National Bank of Omaha was not in compliance with all of the provisions of Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations, in particular 003.02(b), 003.02(d), 003.02(e), 003.02(g)(i), 003.02(g)(ii), 003.02(h), 003.02(i), 003.02(j), 003.02(l), 003.02(m), 003.02(n), and 003.02(o).

It was also noted that the custodial agreement with First National Capital Markets was not in compliance with provisions 003.02 (a), 003.02(b), 003.02(d), 003.02(e), 003.02 (f), 003.02(g)(i), 003.02(g)(ii), 003.02(h), 003.02(i), 003.02(j), 003.02(k), 003.02(l), 003.02(n), and 003.02(o).

It is recommended that the Company revise its custodial agreements to include all provisions related to safeguards and controls of securities pursuant to Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Investments – Custodial Agreements – It is recommended that the Company revise its custodial agreements with the custodians holding securities on its behalf to include all provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Joe C. Hofmeister, CFE, Derek J. Petersen, CFE, Linda K. Scholl, CFE, Andrea D. Szwanek, CFE, Wade B. Fleischacker, and Elizabeth I. Hofker, Financial Examiners; Gary E. Evans, CFE, CISA, AES, Information Systems Specialist; and Gordon K. Hay, FCAS, MAAA, CPCU, Property & Casualty Actuarial Examiner; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Isaak Russell, CFE
Assistant Chief Examiner - Exam
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

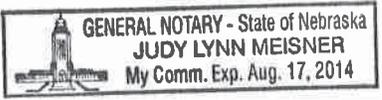
Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Lenders Protection Assurance Company Risk Retention Group.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Lenders Protection Assurance Company Risk Retention Group was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

[Signature]
Examiner-in-Charge's Signature

Subscribed and sworn before me by ISAIAK RUSSELL on this 12 day of JUNE, 2013.



(SEAL)

[Signature]
Notary Public

My commission expires 8/17/2014 [date].