

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, ss:

SUPREME JUDICIAL COURT
FOR SUFFOLK COUNTY
NO. SJ-2000-0394

_____)
LINDA L. RUTHARDT, as she is)
Commissioner of Insurance of the)
Commonwealth of Massachusetts)
Plaintiff,)
v.)
NEW ENGLAND FIDELITY INSURANCE)
COMPANY,)
Defendant.)
_____)

PERMANENT RECEIVER'S SECOND STATUS REPORT

I, Linda L. Ruthardt, Commissioner of Insurance of the Commonwealth of Massachusetts, in my capacity as Permanent Receiver (the "Receiver") of New England Fidelity Insurance Company ("New England Fidelity"), hereby submit this status report on the liquidation of New England Fidelity.

1. Staffing: As of March 31, 2001, New England Fidelity had no remaining employees. Special Deputy Receiver Kevin McAdoo continues to assist with the liquidation of New England Fidelity. His efforts continue to be supported by the services of American Patriot Group Inc. ("APG")^{1/} and Associated Insurance

^{1/} APG is a wholly owned subsidiary of the American Mutual Liability Insurance Company, in Liquidation ("AMLICO"). By virtue of my appointment as Permanent Receiver of AMLICO, I also control the operations of APG.

Management, Inc. ("AIM, Inc."). One AIM, Inc. employee is providing assistance with issues arising from New England Fidelity's employee benefit plans. APG employees support the proof of claim process approved by the Court, the collection of unearned commissions, the collection of subrogation recoveries, and coordination with the Massachusetts Insurers Insolvency Fund ("MIIF"). I have sought to keep administrative expenses at the lowest possible level. The total costs for services of the Special Deputy Receiver, AIM and APG in 2001 were approximately \$203,000.

2. Claim and Unearned Premium Processing: The entry of the Liquidation Order triggered MIIF's statutory obligation to pay "covered claims" under policies of insurance issued by New England Fidelity. New England Fidelity's claim files were therefore transferred to MIIF for adjustment and consideration of payment as "covered claims". As of March 25, 2002, MIIF has reported total payments of losses and loss adjustment expenses of approximately \$6,904,000 attributable to "covered claims" under New England Fidelity policies. There are approximately 2,700 remaining open claims which continue to be adjusted by MIIF. MIIF has established loss and loss adjustment expense reserves of approximately \$6,843,000 for these remaining open claims. It is anticipated, however, that new claims will continue to be reported to MIIF for some time to come. MIIF has paid New England Fidelity's policyholders approximately \$3,800,000 for their unearned premium claims.

3. Liquid Assets: As of March 25, 2002, New England Fidelity had liquid assets under my control as Receiver of approximately \$7,568,000. In addition, there is approximately \$3,100,000 on deposit at Banknorth (formerly The Springfield Institution for Savings) (the "Bank"). These funds are the proceeds (and investment earnings on the proceeds) of a loan by the Bank to New England Fidelity's parent company, LADD Financial Group, Inc. ("LADD"), which were contributed by LADD to the surplus of New England Fidelity. Since the loan is now in default, the Bank is restricting access to these funds. I am presently litigating this issue with the Bank.

4. Marshalling of other assets: Among the other assets which are continuing to be marshaled are reinsurance recoveries, claim subrogation recoveries, and unearned agents' commissions. From the inception of this proceeding through March 25, 2002, salvage and subrogation recoveries totaling approximately \$916,000 have been collected on behalf of the estate. As a result of the cancellation of New England Fidelity's entire book of business, unearned agents' commissions of approximately \$923,000 were billed to former agents in February, 2001. The collection of these balances has been an important objective, and is continuing. As of March 25, 2002, approximately \$659,000 of unearned commissions have been collected. In addition, I have obtained written commitments from former agents to pay an additional \$129,000 in installment payments. To date, these collection efforts have resolved approximately 85% of the amounts

billed. As noted in my previous report, due to the terms of the New England Fidelity reinsurance programs, only modest reinsurance recoveries are anticipated.

5. Proof of Claim Process: Pursuant to the Court's order of November 8, 2001, to date notice has been mailed to approximately 49,900 potential New England Fidelity creditors. The deadline for the filing of all proofs of claim against New England Fidelity, pursuant to G.L. c. 175, §180F, is November 8, 2002. Until that deadline has passed, it will not be possible to ascertain the total number of claims against New England Fidelity.

6. Summary: With the exception of potential recovery resulting from litigation concerning the loan, I do not expect the assets of the estate of New England Fidelity to materially increase. It is premature to estimate the final liabilities of the estate. However, based solely upon known, policyholder level claims (in particular, the claims being handled by MIIF), I expect that there is presently a deficit in the estate in the approximate amount of \$10,000,000.

Respectfully submitted,

Linda L. Ruthardt
Permanent Receiver

Dated: March __, 2002