

CAUSE NO. D-1-GV-12-001713

THE STATE OF TEXAS	§	IN THE DISTRICT COURT OF
	§	
VS.	§	TRAVIS COUNTY, TEXAS
	§	
GRAMERCY INSURANCE COMPANY	§	53RD JUDICIAL DISTRICT

**APPLICATION TO APPROVE ASSUMPTION
AND RELATED NOVATION AGREEMENTS**
(GoAuto)

TO THE HONORABLE JUDGE OF SAID COURT:

Comes now Resolution Oversight Corporation, Special Deputy Receiver of Gramercy Insurance Company, in Receivership (“Gramercy”), and files this APPLICATION TO APPROVE ASSUMPTION AND RELATED NOVATION AGREEMENTS (GoAuto), and would respectfully show the Court the following:

I. AUTHORITY

On December 4, 2012, this Court entered an *Agreed Order Appointing Rehabilitator and Permanent Injunction* (the “PI”) in this proceeding, placing Gramercy into receivership and appointing the Commissioner of Insurance of the State of Texas as Rehabilitator (the “Rehabilitator”). On February 15, 2013, the Rehabilitator appointed Resolution Oversight Corporation as Special Deputy Receiver (the “SDR”), and on February 22, 2013, the SDR filed its oath. The SDR is authorized to file this Application pursuant to TEX. INS. CODE § 443.102. The subject matter of this Application has been referred to the Special Master appointed in this proceeding in accordance with Paragraph III (8) of the *Order of Reference to Master* entered on December 14, 2012.

II. BACKGROUND

Gramercy is the issuer of certain non-standard private passenger automobile policies in Louisiana underwritten and administered exclusively by GoAuto Management Services, LLC ("GoAuto") pursuant to the Program Management Agreement by and between Gramercy and GoAuto, effective as of August 1, 2009 (as amended by Addendum No. 1 thereto executed by Gramercy and GoAuto on March 23, 2012, and as otherwise amended, the "Program Management Agreement"). (Such policies issued by Gramercy through GoAuto are referred to herein as the "GoAuto Policies"). The Go Auto policies underwritten by GoAuto for Gramercy are covered by reinsurance issued by Maiden Reinsurance Company ("Maiden Re") pursuant to the Louisiana Automobile Quota Share Reinsurance Agreement (268-6-09-00-00) by and between Maiden Re and Gramercy, effective as of September 1, 2009, amended by Addenda Nos. 1 and 2 (together with the related trust agreements and all appendices, addenda, endorsements and amendments to such agreements, the "Reinsurance Agreement"). Citadel Insurance Company ("Citadel") is a non-standard private passenger automobile insurer domiciled in the State of Louisiana.

III. ASSUMPTION AND NOVATION AGREEMENTS

As part of its efforts to reform and revitalize the Company in the rehabilitation proceedings, the SDR desires to transfer and assign to Citadel on an assumption basis all of Gramercy's rights, titles and interests in and to the GoAuto Policies, such that all of Gramercy's rights, duties and obligations under the GoAuto Policies are completely novated and assumed by Citadel. Citadel desires to assume all of the GoAuto Policies subject to the continued administration by GoAuto pursuant to the Program Management Agreement and the continued reinsurance of the Gramercy Policies by Maiden Re pursuant to the Reinsurance Agreement. Maiden Re desires to allow Citadel to assume Gramercy's rights, duties and obligations in connection with the Reinsurance Agreement and the Gramercy Policies covered thereby. GoAuto desires to allow Citadel to assume Gramercy's

rights, duties and obligations in connection with the Program Management Agreement. Since the entry of the PI, Gramercy has been directing GoAuto on handling the claims under the GoAuto policies and paying all expenses and settlements.

III. REQUEST TO ALLOW ASSUMPTION AND NOVATIONS

TEX. INS. CODE § 443.102(b) provides that the Rehabilitator may take action as the Rehabilitator deems necessary or appropriate to reform and revitalize the insurer, including transferring the policies and reinsurance contracts to a solvent assuming carrier. Citadel, GoAuto, Maiden Re and Gramercy have arrived at an agreed assumption structure subject to approval of this Court. Gramercy will pay Citadel \$468,715.14 for the assumption of all liabilities, including outstanding paid claims, ALAE, case reserves and IBNR. This is a reduction in the amount Gramercy is carrying for these liabilities. Attached hereto as Exhibit A is a proposed Assumption Agreement with Citadel whereby Citadel agrees to assume all liabilities of Gramercy for the GoAuto policies. Attached hereto as Exhibit B is a Novation Agreement between Gramercy and GoAuto whereby GoAuto agrees to pay Gramercy \$620,559.00 for all taxes, assessments, licenses and other fees due to the State of Louisiana on the GoAuto policies and agrees to allow Gramercy to transfer its rights and obligations under the Program Management Agreement to Citadel. GoAuto agrees to look solely to Citadel for satisfaction of the obligations under the Program Management Agreement. Attached hereto as Exhibit C is a Novation Agreement between Gramercy and Maiden Re whereby Maiden Re agrees to allow Citadel to assume Gramercy's obligations under the Reinsurance Agreement, including any return premiums, and Gramercy agrees to assign all reinsurance benefits to Citadel.

Allowing the assumption of the GoAuto policies by Citadel will allow the GoAuto insureds to continue their coverage and it will remove uncertain liabilities from Gramercy's

financial obligations for a reduced fixed cost. In addition, if this application is granted, the GoAuto policyholders will receive more favorable treatment than they would receive under liquidation as their policies will remain in force and their policy benefits and premiums will be protected. Further, GoAuto, on behalf of Citadel, will take over handling of all claims and expenses related to the GoAuto policies.

The SDR asks that the Court approve these Assumption and Novation Agreements, approve the payments by GoAuto and Gramercy, and allow the SDR to enter into agreements in substantially the same form as Exhibits A, B and C.

IV. NOTICE TO INTERESTED PARTIES

In compliance with § 443.007(d) of the Insurance Code and the Rules adopted by the Special Master under the *Order of Reference* and Rule 171 of the Texas Rules of Civil Procedure, this Application has been served on the service list as shown on the Certificate of Service 14 days prior to the submission date of the Application.

V. OFFER OF PROOF

The Affidavit of Ernesto Garza, President of Resolution Oversight, is attached hereto as Exhibit D and is offered as evidence to support this recommendation. The SDR represents to the Court that the assumption of these policies is in the best interests of the Gramercy estate, its policyholders and creditors.

VI. EXPEDITED CONSIDERATION

The SDR requests that this Application be set for expedited consideration with a submission date of March 18, 2013. Citadel and GoAuto have been working on the assumption since the PI was entered. The numbers were agreed to in early January, and GoAuto has continued to handle claims and fund losses and LAE without reimbursement. Gramercy needs

the assurances of completing this transaction to stabilize its balance sheet for a sum certain and removal of all associated losses. This expedited consideration is in the best interest of the Gramercy estate and the GoAuto policy holders, who will have the opportunity to continue coverage without interruption.

PRAYER

WHEREFORE, PREMISES CONSIDERED, the Special Deputy Receiver respectfully requests that this Court enter an order approving the Assumption by Citadel of the GoAuto policies and Gramercy's obligations related thereto, approving the payments by Gramercy to Citadel and the payments by GoAuto to Gramercy, and approving the Novation of the Go Auto Program Management Agreement and the Novation of the Maiden Reinsurance Agreement; and granting such further relief to which the SDR may be entitled.

Respectfully submitted,

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APPLICANT'S NOTICE OF SUBMISSION

Pursuant to the terms of the Order of Reference to Master entered by the District Court in this cause, the Application to Approve Assumption and Related Novation Agreements (GoAuto) is hereby set for written submission before the Special Master, Tom Collins, on **Monday, March 18, 2013**.

The Special Master has established the following rules pursuant to Rule 171 of the Texas Rules of Civil Procedure:

1. Any objection must be filed with the Travis County District Clerk at least three (3) calendar days before the submission date.
2. A copy of any objection shall be served by email by such date on:
 - (a) The Special Master's Docket Clerk, Ms. Jean Sustaita, at Jean.Sustaita@tdi.texas.gov
 - (b) All interested parties, including the undersigned counsel and those listed on the Applicant's Certificate of Service.
3. The written objection must specifically list all reasons for objection with supporting references to and discussion of statutory and case authorities. Reasons not stated in writing will not be considered orally.
4. If a matter is set for submission, an objecting party shall expeditiously coordinate with Applicant's counsel and the master's docket clerk [(512) 463-6450] to obtain an oral hearing, unless the master determines that an oral hearing is not necessary. The objecting party shall serve a Notice of Oral Hearing on applicant's counsel and all interested parties, including those listed on the Applicant's Certificate of Service.
5. Failure to file timely a written objection before the Special Master constitutes a waiver of the right to object to the Special Master's recommendation to the District Court.
6. Any Acknowledgment of Notice and Waiver to be filed by a Guaranty Association or other interested party should be filed at least three (3) calendar days before the submission or hearing date.

/s/ Rachel J. Stroud

Rachel J. Stroud

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served on all interested parties in accordance with the Texas Rules of Civil Procedure and TEX. INS. CODE ANN. § 443.007(d) this 8th day of March, 2013.

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Mr. Ian M. Leifer
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P.O. Box 268994
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/s/ Rachel Stroud

Rachel Stroud
Email: rstroud@stroud-welchlaw.com

ASSUMPTION AGREEMENT

THIS ASSUMPTION AGREEMENT (this "**Agreement**"), entered into this ___ day of March, 2013, is made by and between GRAMERCY INSURANCE COMPANY in REHABILITATION (hereinafter referred to as the "**Company**") and CITADEL INSURANCE COMPANY ("**Citadel**"). The Company and Citadel shall be referred to collectively herein as the "**Parties**" and singly a "**Party**."

RECITALS:

WHEREAS, the Company is a Texas-domiciled insurance company subject, as of December 4, 2012, to court-ordered rehabilitation proceedings pending in the 53rd Judicial District Court of Travis County, Texas (the "**Receivership Court**"), Cause No. D-1-GV-12-001713, and the Commissioner of Insurance for the State of Texas is the statutory and court-appointed rehabilitator for the Company (the "**Rehabilitator**"); and the Rehabilitator appointed Resolution Oversight Corporation ("**ROC**") as Special Deputy Receiver (the "**SDR**").

WHEREAS, Citadel is a non-standard private passenger automobile insurer domiciled in the State of Louisiana;

WHEREAS, the Company is the issuer of certain non-standard private passenger automobile policies (i) underwritten and administered exclusively by GoAuto Management Services, LLC ("**GoAuto**") pursuant to that certain Program Management Agreement by and between the Company and GoAuto, effective as of August 1, 2009 (as amended by Addendum No. 1 thereto executed by the Company and GoAuto on March 23, 2012, and as otherwise amended, the "**Program Management Agreement**"), and (ii) subject to reinsurance by Maiden Insurance Company ("**Maiden**") pursuant to that certain Louisiana Automobile Quota Share Reinsurance Agreement (268-6-09-00-00) by and between Maiden and the Company, effective as of September 1, 2009, amended by Addendum No. 1 executed by the Company on November 11, 2010 and Maiden on November 1, 2010, and Addendum No. 2 executed by the Company on February 8, 2012, and Maiden on February 3, 2012 ("**Treaty 3**") (together with the related trust agreements and all appendices, addenda, endorsements and amendments to such agreements, the "**Reinsurance Agreement**") (such policies issued by the Company, the "**Policies**");

WHEREAS, as part of its efforts to reform and revitalize the Company in the rehabilitation proceedings, the Rehabilitator desires to transfer and assign to Citadel on an assumption basis all of the Company's right, title and interest in and to the Policies, such that all of the Company's rights, duties and obligations under the Policies are completely novated and assumed by Citadel;

WHEREAS, Citadel desires to assume on an assumption basis all of the Company's rights, duties and obligations in connection with, relating to, or arising out of the Policies upon the terms and conditions set forth herein, subject to the continued administration of the Policies by GoAuto pursuant to the Program Management Agreement and the continued reinsurance of the Policies by Maiden pursuant to the Reinsurance Agreement.

WHEREAS, Maiden desires to allow Citadel to assume the Company's rights, duties and obligations in connection with the Reinsurance Agreement and the Policies covered thereby.



NOW, THEREFORE, in consideration of the mutual covenants and promises, and upon the terms and conditions hereinafter set forth, the Parties hereto agree as follows.

ARTICLE I
DEFINITIONS

For purposes of this Agreement, the following terms shall have the meanings specified below.

"**Closing**" shall mean the closing of the transactions contemplated in this Agreement, including the transfer of the Settlement Amount which shall take place by transmission of electronic (in PDF format) documents and wire transfer of immediately available funds.

"**Closing Date**" shall mean the date on which the Closing shall take place, which shall be no later than the 35st day after the Order approving this Agreement is entered by the Receivership Court, or such other date and time as the Parties may mutually agree in writing; provided, however, that the Closing Date shall not occur until such time as the approvals set forth in Section 7.01 have been obtained and such other conditions to closing set forth therein have been satisfied.

"**GoAuto**" has the meaning given such term in the Recitals.

"**Maiden**" has the meaning given such term in the Recitals.

"**Policies**" has the meaning given such term in the Recitals.

"**Policy Holders**" means the holders of the Policies.

"**Policy Liabilities**" means the Company's liabilities and obligations under the Policies.

"**Potential Claimant**" has the meaning given such term in Section 6.03.

"**Premium Tax Amount**" has the meaning given such term in Section 6.02.

"**Program Management Agreement**" has the meaning given such term in the Recitals.

"**Receivership Court**" has the meaning given such term in the Recitals.

"**Rehabilitator**" has the meaning given such term in the Recitals.

"**Reinsurance Agreement**" has the meaning given such term in the Recitals.

"**ROC**" has the meaning given such term in the Recitals.

"**Settlement Amount**" shall mean the amount of the cash payment to be made by the Company to Citadel at the Closing which shall equal \$468,715.14.

"**SDR**" has the meaning given such term in the Recitals.

ARTICLE II
POLICIES TRANSFERRED AND ASSUMED

Section 2.01. Assignment and Assumption of Policies. Effective as of the Closing, (i) the all of the Company's right, title, interest and benefits in and under the Policies shall automatically be

transferred and assigned to Citadel, and (ii) all of the Policy Liabilities shall automatically be accepted and assumed by Citadel.

Section 2.02. Certificates of Assumption; Notice of Assumption. As soon as practicable after the Closing, Citadel shall (i) transmit by mail, or if previously authorized by the Policy Holders, by electronic transmission, certificates of assumption to the Policy Holders of those Policies outstanding on the Closing Date, in the form attached hereto as **Attachment 1** that has been approved by the Louisiana Department of Insurance and the Texas Department of Insurance, and obtain consents from such Policy Holders to such assumption to the extent required by applicable law, and (ii) publish in The Advocate (Baton Rouge, Louisiana), The Times Picayune (New Orleans, Louisiana), the Shreveport Times (Shreveport, Louisiana), The Town Talk (Alexandria, Louisiana), and The American Press (Lake Charles, Louisiana), and post on its website for one hundred and eighty (180) days following the Closing Date, a notice of assumption, in the form attached hereto as **Attachment 2**. Citadel agrees to respond to any inquiries or objections to such notice of assumption or certificates of assumption and obtain any required written acceptance of the assumption from the Policy Holders. Such required written acceptances to the assumption, if any, will provided to Company for its records.

Section 2.03. Policy Liabilities. Effective as of the Closing, all of the Policy Liabilities shall automatically be accepted, and assumed by Citadel subject to any and all defenses, setoffs, and counterclaims to which the Company would be entitled with respect to the Policy Liabilities, it being expressly understood and agreed by the Parties hereto that no such defenses, setoffs, or counterclaims are or shall be waived by the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, and that Citadel is and shall be fully subrogated in and to all such defenses, setoffs, and counterclaims. From and after the Closing, as among the Parties, Citadel shall bear and shall have responsibility for paying or performing all Policy Liabilities.

Section 2.04. Indemnity and Defense of the company. Effective as of the Closing, Citadel will indemnify and hold the Company harmless from any and all Policy Liabilities. Citadel further agrees to provide a defense for the Company, the SDR, or Commissioner of the Texas Department of Insurance, as Receiver, for any Policy Liabilities after the Closing.

ARTICLE III TERM

Section 3.01. Term. This Agreement shall remain in force and effect until all Policy Liabilities assumed by Citadel have been discharged in full.

Section 3.02. Recapture. The Policies transferred to and assumed by Citadel hereunder are not eligible for recapture.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

Section 4.01. The Company. The Company hereby represents and warrants to Citadel as follows as of the date hereof:

- (a) Actions and Proceedings. There are no pending actions, suits or proceedings known to the Company which could materially and adversely affect the transactions

contemplated under this Agreement;

- (b) Organization and Standing. The Company is duly incorporated and validly existing under the laws of the State of Texas, but subject to the supervision of the Receivership Court under Tex. Ins. Code Chapter 443. At the time the Policies were originally issued, the Company was duly qualified and licensed to transact an insurance business in Texas and all other applicable jurisdictions;
- (c) Validity. Subject to the approval by the Receivership Court as contemplated in Section 7.01, this Agreement is a valid and binding obligation of the Company and of the Rehabilitator. The Rehabilitator has been duly appointed by the Receivership Court and is authorized to execute this Agreement under applicable Texas law.
- (d) Corporate Authority. The execution of this Agreement by the Company and the consummation of the transactions contemplated by this Agreement have been approved by all necessary corporate action of the Company.
- (e) No Violation. Neither the execution and delivery of this Agreement, nor the Company's compliance with any of the provisions of this Agreement will:
 - (i) conflict with or result in a breach of the Articles of Incorporation or Bylaws of the Company, or result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions, or provisions of any note, lien, bond mortgage, indenture, license, lease, agreement, consent order, or other instrument or obligation to which the Company is a party or by which it may be bound;
 - (ii) violate any judgment, order, writ, injunction, or decree of any court, administrative agency, or governmental body applicable to the Company or to any of its properties or assets;
 - (iii) cause, or give any person grounds to cause (with or without notice, the passage of time, or both), the maturity of any liability of the Company to be accelerated or increased; or
 - (iv) conflict with or result in a violation of any applicable state insurance law or regulation.

Section 4.02. Citadel. Citadel hereby represents and warrants to the Company as follows as of the date hereof:

- (a) Organization and Existence. Citadel is duly incorporated, validly existing, and in good standing under the insurance laws of Louisiana. Citadel has all requisite corporate power and authority to carry on its business as it is now being conducted, and to own, lease and operate its properties;
- (b) Corporate Authority. The execution of this Agreement by Citadel and the consummation of the transactions contemplated by this Agreement have been approved by all necessary corporate action of Citadel;
- (c) Validity; No Violation. This Agreement is a legal, valid and binding obligation of

Citadel, enforceable against it in accordance with its terms and conditions. Neither the execution and delivery of this Agreement, nor Citadel's compliance with any of the provisions of this Agreement will:

- (i) conflict with or result in a breach of the Articles of Incorporation or Bylaws of Citadel, or result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions, or provisions of any note, lien, bond mortgage, indenture, license, lease, agreement, consent order, or other instrument or obligation to which Citadel is a party or by which it may be bound;
 - (v) violate any judgment, order, writ, injunction, or decree of any court, administrative agency, or governmental body applicable to Citadel or to any of its properties or assets;
 - (vi) cause, or give any person grounds to cause (with or without notice, the passage of time, or both), the maturity of any liability of Citadel to be accelerated or increased; or
 - (vii) conflict with or result in a violation of any applicable state insurance law or regulation.
- (d) Survival of Representations and Warranties. The representations and warranties made by Citadel in this Section and elsewhere in this Agreement shall survive Closing until all of the Policy Liabilities assumed and reinsured hereunder have been discharged or have otherwise expired.

ARTICLE V SETTLEMENT AMOUNT AND CLOSING

Section 5.01. Settlement Amount. The Company agrees to pay Citadel an amount in cash equal to the Settlement Amount, which shall be remitted by the Company to Citadel on the Closing Date by wire transfer of immediately available funds to an account designated by Citadel. Citadel shall provide the Company with wire transfer instructions and bank routing numbers for the payment of the Settlement Amount at least forty-eight (48) hours prior to the Closing Date.

Section 5.02. Premium Tax Amount. On the Closing Date of this Agreement, Citadel shall cause GoAuto to transfer the Premium Tax Amount, as specified in Section 6.02, to the Company by wire transfer of immediately available funds into an account as directed by the Rehabilitator.

Section 5.03. Program Management Agreement and Reinsurance Agreement. Contemporaneously herewith, (i) the Company, Citadel and GoAuto have entered into an Assignment and Novation Agreement pursuant to which Citadel will replace and be substituted for the Company under the Program Management Agreement, and (ii) the Company, Citadel and Maiden have entered into an Assignment and Novation Agreement pursuant to which Citadel will replace and be substituted for the Company under the Reinsurance Agreement (including the related trust agreements), each such Assignment and Novation Agreement to be effective contemporaneously with the Closing.

ARTICLE VI
UNDERTAKINGS FOLLOWING CLOSING

Section 6.01. Premium and Other Payments, Negotiation of Checks. Upon and after the Closing Date, (i) all premium and other payments under the Policies shall be the sole property of Citadel, and (ii) any premium or other payment received by the Company, to the extent such premium or other payment is received on and after the Closing Date, shall be remitted to Citadel. Citadel shall be authorized to endorse for payment all checks, drafts, and money orders payable to the Company with respect to premiums or other payments payable on the Policies. The Company hereby assigns, to the extent permitted by law, to Citadel all of its rights and privileges to draft or debit the accounts of any Policy Holders for premiums or other payments due under the Policies pursuant to existing pre-authorized bank draft or electronic fund transfer arrangements between the Company and such Policy Holders. Citadel will notify all such Policy Holders of the assumption in accordance with Section 2.02 and provide direction and instructions to direct them to pay Citadel.

Section 6.02. Premium Taxes. The Company shall file all Louisiana premium tax and assessment returns due with respect to the Policies for the calendar year ending December 31, 2012, and shall timely pay all Louisiana premium taxes and Louisiana assessments for the Policies written in 2012. The aggregate amount of estimated premium taxes previously paid by GoAuto to the Company with respect to the Policies for the first three calendar quarters of 2012 is \$1,115,676 (such amount, the "**Estimated Premium Tax for the First Three Quarters of 2012**"), and the Company acknowledges receipt thereof and represents and warrants to Citadel that it has paid to the appropriate taxing authority the Estimated Premium Tax for the First Three Quarters of 2012. Citadel shall cause GoAuto to pay the Company on the Closing Date the amount of \$620,559 (the "**Premium Tax Amount**"), being the Louisiana premium tax and assessments due with respect to the Policies under Treaty 3 from inception to date less the Estimated Premium Tax and assessments on Treaty 3 paid by GoAuto from inception to date for 2011 and for the First Three Quarters of 2012, which payment GoAuto is obligated to make under the Program Management Agreement. Citadel shall file all premium tax and assessment returns due with respect to the Policies for all periods commencing on or after January 1, 2013, and shall be entitled to all credits and receive refunds for Louisiana premium tax and assessments under those premium tax and assessment returns to be filed by Citadel pursuant to this Section 6.02. The Company shall not be entitled to take credits or receive refunds under its premium tax and assessment returns for cancellations of the Policies occurring after 2012. The Company hereby represents and warrants to Citadel that it has paid to the appropriate taxing authority(ies) all premium taxes and assessments due with respect to the Policies for all periods ending on or prior to December 31, 2011. If the Estimated Premium Tax for the First Three Quarters of 2012 plus the Premium Tax Amount is less than the actual required payments owed to Louisiana for premium tax and assessments due with respect to the Policies for 2012, GoAuto agrees to fund the actual amount owed.

Section 6.03. Forwarding of Claims and Inquiries. After the Closing, the Company shall refer to Citadel all inquiries involving the Policies, including, without limitation, inquiries regarding additional premiums, claims payment or policy provisions, limitations or exclusions. Claims under the Policies submitted to the Company will be forwarded to Citadel as promptly as practicable. After the Closing, the Company shall promptly, upon receipt thereof, notify Citadel of any written or oral complaint to or from any official of a state insurance department, any federal or state regulatory authority or any other person or entity, and any complaint threatening litigation in connection with any of the Policies (each, a "**Potential Claimant**"). Upon notification by the Company, Citadel will promptly notify such Potential Claimant of the assumption of the Policies by Citadel and the release

of the Company from obligations under the related Policy and/or Program Management Agreement.

ARTICLE VII
CONDITIONS TO CLOSING; COMPLIANCE

Section 7.01. Conditions to Closing. The consummation of this Agreement and the transactions contemplated hereby are expressly contingent upon and subject to the following conditions precedent:

- (i) the Receivership Court, issues an order approving this Agreement and **Attachments 1 and 2** hereto and such order becomes final and non-appealable;
- (ii) written approval by (a) the Louisiana Department of Insurance, and (b) the Texas Department of Insurance, such approvals to be in form and content mutually satisfactory to the Parties;
- (iii) the sending of the certificates of assumption and notices described and in accordance with Section. 2.01;
- (iv) obtaining the Assignment and Novation Agreements with Maiden and GoAuto as outlined in Section 5.03;
- (v) the payment by Gramercy of the Settlement Amount to Citadel and the payment by GoAuto of the Premium Tax Amount to Gramercy in accordance with Sections 5.01 and 6.02, respectively.
- (vi) obtaining any and all such other approvals and consents as may be required by applicable law, regulation, or regulatory authority. No provision in this Agreement shall be deemed to require either Party to take any action prohibited by applicable law, regulation, or regulatory authority; and
- (vii) all written representations, recitals and affirmations made in this Agreement by any Party shall be true and correct in all material respects as of the Closing Date as if made at the Closing.

Section 7.02. Compliance with Laws. Each Party shall, in the performance of its obligations set forth in this Agreement, comply with all applicable law and the rules and regulations of all regulatory authorities with jurisdiction over the Parties, and each Party shall maintain all licenses or certificates necessary or appropriate for the performance of the functions set forth in this Agreement. Each party shall conform its actions under this Agreement to any orders concerning the activities covered by this Agreement by regulatory authorities having jurisdiction over the Parties' products, business affairs and operations. Each Party shall promptly notify the other Party of any complaint, inquiry or lawsuit by any regulatory authorities relating to this Agreement.

ARTICLE VIII
MISCELLANEOUS

Section 8.01. Notices. Any notice or other communication required or permitted hereunder

shall be in writing and shall be delivered by hand, certified or registered mail (postage prepaid and return receipt requested), by a nationally recognized overnight courier service (appropriately marked for overnight delivery), facsimile or electronic mail (with request for immediate confirmation of receipt in a manner customary for communications of such respective type). Notices shall be effective as described below, and shall be addressed as follows:

If to the Company: Gramercy Insurance Company in Rehabilitation
Ernesto Garza
Resolution Oversight Corporation
P.O. Box 691852
San Antonio, TX 78269-1852
Email: Eagarzasdr@aol.com
Fax Number: 210-499-1192

With a copy to: Rachel Stroud
Stroud, Marrero & Welch PLLC
11824 Jollyville Rd., Ste 200
Austin, TX 78759
Email: rstroud@stroud-welchlaw.com
Fax Number: 512-482-9211

If to Citadel: Citadel Insurance Company
7169 Florida Boulevard
Baton Rouge, LA 70806
Attention: Gregory W. Tramontin
Facsimile: (225) 231-8336
Email: gwtramontin@gmail.com

All notices and other communications required or permitted under the terms of this Agreement that are addressed as provided in this Section shall (i) if delivered personally or by overnight express, be deemed given upon delivery; (ii) if delivered by facsimile or email transmission, be deemed given when electronically confirmed; and (iii) if sent by registered or certified mail, be deemed given when received. Any party from time to time may change its address for notice purposes by giving a similar notice specifying a new address, but no such notice shall be deemed to have been given until it is actually received by the party sought to be charged with the contents thereof.

Section 8.02. Entire Agreement. This Agreement (which includes the Recitals and the Attachments hereto which are incorporated herein and made a part hereof) contains the entire agreement and understanding among the Parties with respect to the transactions contemplated hereby, and supersedes all prior agreements and understandings, written or oral, with respect thereto.

Section 8.03. Expenses. Except as otherwise expressly provided in this Agreement, whether or not the transactions contemplated hereby are consummated, each of the Parties hereto shall pay its own costs and expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the transactions contemplated hereby.

Section 8.04. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties. Further, facsimile and electronic (in PDF format) copies of this Agreement and signatures herein shall be authorized and deemed effective.

Section 8.05. No Third Party Beneficiary. Except for the Policy Holders or as otherwise specifically provided in this Agreement, nothing in this Agreement is intended or shall be construed to give any person, other than the Parties hereto, their successors and permitted assigns, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provisions contained herein.

Section 8.06. Amendment. This Agreement may only be amended or modified by a written instrument executed on behalf of the Parties hereto and any such amendment shall be subject to receipt of any and all consents, approvals, permits and authorizations required to be obtained from any insurance regulatory authority or the Receivership Court.

Section 8.07. Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by any of the Parties hereto without the prior written consent of the other Parties, and any such assignment that is attempted without such consent shall be null and void. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the Parties and their respective successors and permitted assigns.

Section 8.08. Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any present or future law, and if the rights or obligations of the Parties under this Agreement will not be materially and adversely affected thereby, (a) such provision shall be fully severable; (b) this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and (c) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom.

Section 8.09. Duty of Cooperation. Each Party hereto shall cooperate fully with the other Parties hereto in all reasonable respects in order to accomplish the objectives of this Agreement.

Section 8.10. Governing Law, Enforcement. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, and the Receivership Court shall have exclusive jurisdiction over the enforcement hereof.

Section 8.11. Venue. Each Party hereto agrees that the Receivership Court is the proper venue for any dispute involving or related to this Agreement.

Section 8.12. Waiver. Any term or condition of this Agreement may be waived in writing at any date by the Party that is entitled to the benefit thereof. A waiver on one occasion shall not be deemed to be a waiver of the same or any other breach or nonfulfillment on a future occasion. All remedies, either under the terms of this Agreement, or by law or otherwise afforded, shall be cumulative and not alternative, except as otherwise provided by law.

Section 8.13. Errors and Omissions. Inadvertent delays, errors or omissions that occur or are made in connection with the transactions contemplated by this Agreement shall not relieve any Party from any liability that would have attached had such delay, error or omission not occurred, provided

that such error or omission is rectified by the Party making such error or omission as soon as possible after discovery thereof and such error or omission does not prejudice any other Party.

Section 8.14. Interpretation. For purposes of this Agreement, the terms "hereof" "herein", "hereto", "hereunder", and derivative or similar words refer to this Agreement (including the exhibits hereto) as a whole unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". Whenever the singular is used herein, the same shall include the plural, and whenever the plural is used herein, the same shall include the singular, where appropriate. The headings used in this Agreement have been inserted for convenience and do not constitute matter to be construed or interpreted in connection with this Agreement,

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Citadel have each executed this Agreement as of the date first written above.

COMPANY:

GRAMERCY INSURANCE COMPANY
in Rehabilitation

By: _____
Ernesto Garza, President
Resolution Oversight Corporation,
Special Deputy Receiver

CITADEL:

CITADEL INSURANCE COMPANY

By: _____
Gregory W. Tramontin
Chief Executive Officer

Attachments

- 1 - Form of Certificate of Assumption
- 2 - Form of Notice of Assumption

Attachment 1

Form of Certificate of Assumption

CITADEL INSURANCE COMPANY
Administered by GoAuto Management Services, L.L.C.
7169 Florida Boulevard
Baton Rouge, Louisiana 70806
(225) 926-7000

Policy No. _____
[Policy Holder Name]
[Policy Holder Address]

CERTIFICATE OF ASSUMPTION

Please be advised that your automobile insurance policy identified above issued by Gramercy Insurance Company, a Texas-domiciled automobile insurance company (the "**Policy**"), has been assumed by Citadel Insurance Company, a Louisiana-domiciled automobile insurance company, with its home office at 7169 Florida Boulevard, Baton Rouge, Louisiana 70806 ("**Citadel**").

This endorsement to your Policy shall be effective as of [_____] , 2013 (the "**Effective Date**"). Citadel's assumption of your Policy shall be effective as of the Effective Date and is subject to all of the terms and conditions set forth therein and any available defenses and offsets. The coverage under your Policy and the amount of your premium thereunder shall not change during the term of your Policy. You should continue to submit all questions and claims under the Policy, whenever incurred, and remit all premiums due under the Policy, to Citadel or its agents at the following address:

GoAuto Management Services, L.L.C.
7169 Florida Boulevard
Baton Rouge, Louisiana 70806

This endorsement forms a part of your Policy and should be attached to your Policy and retained by you.

If you have any questions concerning this Assumption, please contact your agent.

IN WITNESS WHEREOF, Citadel Insurance Company has caused this endorsement to be executed at its administrative office in Baton Rouge, Louisiana, by its Chief Executive Officer and Secretary as of the ___ day of _____, 2013.

Terry C. Doming
Secretary

Gregory W. Tramontin
Chief Executive Officer

Attachment 2

Form of Notice of Assumption

CITADEL INSURANCE COMPANY

7169 Florida Boulevard
Baton Rouge, Louisiana 70806

NOTICE OF ASSUMPTION

Please be advised that, effective as of [_____] , 2013, certain automobile insurance policies issued by Gramercy Insurance Company, a Texas-domiciled automobile insurance company, issued through GoAuto Management Services, L.L.C., have been assumed by Citadel Insurance Company, a Louisiana-domiciled automobile insurance company, with its home office at 7169 Florida Boulevard, Baton Rouge, Louisiana 70806 (“**Citadel**”). Please contact your agent if you have any questions. This does not change your premium, policy limits, or claims reporting obligations.

IN WITNESS WHEREOF, Citadel Insurance Company has caused this notice to be executed at its administrative office in Baton Rouge, Louisiana, by its Chief Executive Officer and Secretary as of the ___ day of _____, 2013.

Terry C. Doming
Secretary

Gregory W. Tramontin
Chief Executive Officer

ASSIGNMENT AND NOVATION AGREEMENT

This Assignment and Novation Agreement (the "**Novation Agreement**") is made and entered into as of March __, 2013, by and among GoAuto Management Services, LLC, a limited liability company organized under the laws of Louisiana ("**GoAuto**"), Gramercy Insurance Company in Rehabilitation, an insurance company domiciled in Texas ("**Gramercy**"), and Citadel Insurance Company, an insurance company domiciled in Louisiana ("**Citadel**") and together with GoAuto and Gramercy, the "**Parties**" and each singly a "**Party**").

RECITALS:

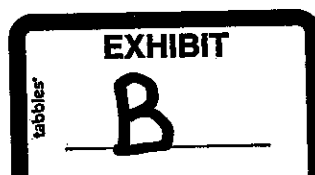
WHEREAS, Gramercy and GoAuto entered into that certain Program Management Agreement, effective as of August 1, 2009 (as amended by Addendum No. 1 thereto executed by Gramercy and GoAuto on March 23, 2012, together with all appendices, addenda, endorsements and other amendments thereto, the "**Program Management Agreement**"), pursuant to which GoAuto underwrites and administers certain non-standard private passenger automobile insurance policies issued by Gramercy (the "**Policies**"), which Policies are subject to reinsurance by Maiden Reinsurance Company, a company organized under the laws of Missouri ("**Maiden**"), pursuant to that certain Louisiana Automobile Quota Share Reinsurance Agreement by and between Maiden and Gramercy, effective September 1, 2009, Reference 268-6-09-00-00 (together with Addendum 1 thereto entered into by Gramercy and Maiden in November 2010, Addendum 2 thereto entered into by Gramercy and Maiden in February 2012, and all appendices, other addenda, endorsements, and amendments thereto, the "**Reinsurance Agreement**");

WHEREAS, as of December 4, 2012, Gramercy is subject to court-ordered rehabilitation proceedings pending in the 53rd Judicial District Court of Travis County, Texas (the "**Receivership Court**"), Cause No. D-1-GV-12-00173, and the Commissioner of Insurance for the State of Texas is the statutory and court-appointed rehabilitator (the "**Rehabilitator**") and the Rehabilitator appointed Resolution Oversight Corporation ("**ROC**") as Special Deputy Receiver (the "**SDR**"). ;

WHEREAS, Citadel and Gramercy have agreed subject to and in accordance with the terms of that certain Assumption Agreement by and between them of even date herewith that Citadel shall be substituted for Gramercy and succeed to the rights, and assume the duties and obligations, of Gramercy in connection with the Policies as if Citadel had originally issued the Policies (the "**Assumption Agreement**");

WHEREAS, in connection with and in furtherance of the foregoing, Gramercy wishes to assign its rights to Citadel under the Program Management Agreement;

WHEREAS, subject to and in accordance with the terms herein, Citadel seeks to be substituted for Gramercy and succeed to the rights, and assume the duties and



obligations of Gramercy, under the Program Management Agreement as if Citadel had originally entered into the Program Management Agreement with GoAuto; and

WHEREAS, GoAuto consents to and accepts the replacement of Gramercy by Citadel.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the Parties agree as follows:

ARTICLE I

NOVATION AND SUBSTITUTION

- A. As of the Effective Date, as specified in Article II herein, Gramercy assigns to Citadel, which agrees to such assignment, all of its rights and benefits without limitation, known and unknown, actual or otherwise, under the Program Management Agreement and Gramercy and Citadel hereby agree that, as of the Effective Date, Citadel (i) assumes all liabilities and obligations of Gramercy under the Program Management Agreement in place of Gramercy as if Citadel had originally entered into the Program Management Agreement with GoAuto, and (ii) shall perform and satisfy in full all of Gramercy's obligations under the Program Management Agreement in place of Gramercy.
- B. GoAuto hereby consents to the foregoing assignment and assumption.
- C. As of the Effective Date, GoAuto, on behalf of itself and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders, releases and discharges Gramercy and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders from any and all actions, causes of action, claims, debts, liabilities and obligations to GoAuto of any kind, known or unknown, which have arisen or which may arise in the future under, or by reason of, the Program Management Agreement. As of the Effective Date, Gramercy, on behalf of itself and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders, save and accept for (i) the contingent commission payable to Maiden by GoAuto pursuant to the Program Management Agreement or by Citadel pursuant to the Reinsurance Agreement and (ii) the premium tax payment(s) owed by GoAuto to Gramercy as described in the Assumption Agreement, releases and discharges GoAuto and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders from any and all actions, causes of action, claims, debts, liabilities and obligations to Gramercy of any kind, known or unknown, which have arisen or which may arise in the future under, or by reason of, the Program Management Agreement, it being expressly agreed that from the Effective Date and forward, GoAuto shall look solely to Citadel for its participation under the Program Management Agreement with no recourse against Gramercy.

ARTICLE II

EFFECTIVE DATE

This Novation Agreement shall be effective contemporaneously with the closing of the transactions contemplated by the Assumption Agreement (such date, the “**Effective Date**”).

ARTICLE III

WARRANTIES AND COVENANTS

- A. Each Party hereby represents and warrants to the other Parties as of the date hereof and the Effective Date that: (i) it is a corporation or limited liability company, as applicable, in good standing in its state of domicile; (ii) the execution of this Novation Agreement is expressly authorized by it (and, in the case of Gramercy, the Receivership Court and Chapter 443 of the Texas Insurance Code); (iii) its signatory hereto (and, in the case of Gramercy, the SDR) is duly authorized and legally empowered to enter into this Novation Agreement and the transactions contemplated herein on behalf of it; and (iv) there are no pending agreements, transactions, or negotiations to which it is a party that would render this Novation Agreement or any part thereof void, voidable or unenforceable.
- B. Gramercy hereby represents and warrants to Citadel as of the date hereof and the Effective Date that (i) the Program Management Agreement is now in full force and effect, (ii) all obligations of Gramercy under the Program Management Agreement are current, save and except (a) the contingent commission payable to Maiden by GoAuto pursuant to the Program Management Agreement or by Citadel pursuant to the Reinsurance Agreement and (b) the premium tax payment(s) payable by GoAuto to Gramercy as described in the Assumption Agreement, (iii) no delinquency or default currently exists under the Program Management Agreement, and (iv) it is aware of no condition or circumstance which, with passage of time shall become manifest, will constitute a breach of or default under the Program Management Agreement.
- C. GoAuto hereby confirms to Citadel that as of the date hereof and the Effective Date (i) the Program Management Agreement is now in full force and effect, (ii) all obligations of Gramercy under the Program Management Agreement are current, (iii) no delinquency or default currently exists under the Program Management Agreement, and (iv) it is aware of no condition or circumstance which, with passage of time shall become manifest, will constitute a breach of or default under the Program Management Agreement.
- D. Each of the Parties hereby agrees to promptly execute and deliver such certificates, instruments and other documents, and take such other actions, as may reasonably be required by law or as may reasonably be requested by any other

Party in order to evidence or give effect to the transactions contemplated by this Novation Agreement.

ARTICLE IV

CHOICE OF LAW

This Novation Agreement shall be governed and construed in accordance with the laws of the State of Texas (regardless of the laws that might otherwise govern under applicable principles of conflicts law), and heard in the Receivership Court, as to all matters, including, without limitation, matters of validity, construction, effect, performance and remedies.

ARTICLE V

ENTIRE AGREEMENT

This Novation Agreement (which includes the Recitals hereto), the Assumption Agreement, and that certain Assignment and Novation Agreement of even date herewith by and among Gramercy, Citadel and Maiden relating to the Reinsurance Agreement, represents the entire agreement and understanding among the Parties. No other oral or written agreements or contracts relating to the subject matter hereof currently exist and/or are contemplated.

ARTICLE VI

COUNTERSIGNATURE

This Novation 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, and facsimile and electronic (in PDF format) copies of this Novation Agreement and signatures hereon shall be authorized and deemed effective.

ARTICLE VII

CONFLICT

This Novation Agreement shall be read and considered as an integral part of the Program Management Agreement and in the case of any conflict between this Novation Agreement and any part of the Program Management Agreement the provisions of this Novation Agreement shall prevail.

[Signature page follows]

IN WITNESS WHEREOF, the parties have entered into this Novation Agreement as of the date indicated below.

Gramercy Insurance Company in Rehabilitation

By: _____
Ernesto Garza, President
Resolution Oversight Corporation,
Special Deputy Receiver

Citadel Insurance Company

By: _____
Name: _____
Title: _____
Date: _____

GoAuto Management Services, L.L.C.

By: _____
Name: _____
Title: _____
Date: _____

ASSIGNMENT AND NOVATION AGREEMENT

This Assignment and Novation Agreement (the “**Novation Agreement**”) is made and entered into as of March __, 2013, by and among Maiden Reinsurance Company, a company organized under the laws of Missouri (“**Maiden**”), Gramercy Insurance Company in Rehabilitation, an insurance company domiciled in Texas (“**Gramercy**”), and Citadel Insurance Company, an insurance company domiciled in Louisiana (“**Citadel**” and together with Maiden and Gramercy, the “**Parties**” and each singly a “**Party**”).

RECITALS:

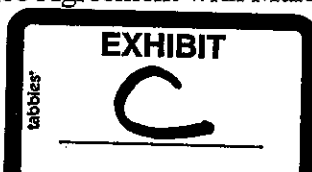
WHEREAS, Gramercy and Maiden have entered into that certain Louisiana Automobile Quota Share Reinsurance Agreement, effective September 1, 2009, Reference 268-6-09-00-00 (together with Addendum 1 thereto entered into by Gramercy and Maiden in November 2010, Addendum 2 thereto entered into by Gramercy and Maiden in February 2012, the related trust agreements, and all appendices, other addenda, endorsements, and amendments to such agreements, the “**Reinsurance Agreement**”), pursuant to which Maiden reinsures certain non-standard private passenger automobile insurance policies issued by Gramercy that are underwritten and administered by GoAuto Management Services, LLC, a Louisiana limited liability company (“**GoAuto**”), pursuant to that certain Program Management Agreement by and between Gramercy and GoAuto, effective as of August 1, 2009 (such agreement, as amended by Addendum No. 1 thereto executed by Gramercy and GoAuto on March 23, 2012, together with all appendices, addenda, endorsements and other amendments thereto, the “**Program Management Agreement**” and such policies, the “**Policies**”);

WHEREAS, as of December 4, 2012, Gramercy is subject to court-ordered rehabilitation proceedings pending in the 53rd Judicial District Court of Travis County, Texas (the “**Receivership Court**”), Cause No. D-1-GV-12-00173, and the Commissioner of Insurance for the State of Texas is the statutory and court-appointed rehabilitator (the “**Rehabilitator**”); and the Rehabilitator appointed Resolution Oversight Corporation (“**ROC**”) as Special Deputy Receiver (the “**SDR**”).

WHEREAS, Citadel and Gramercy have agreed subject to and in accordance with the terms of that certain Assumption Agreement by and between them of even date herewith that Citadel shall be substituted for Gramercy and succeed to the rights, and assume the duties and obligations, of Gramercy in connection with the Policies as if Citadel had originally issued the Policies (the “**Assumption Agreement**”);

WHEREAS, in connection with and in furtherance of the foregoing, Gramercy wishes to assign its rights to Citadel under the Reinsurance Agreement;

WHEREAS, subject to and in accordance with the terms herein, Citadel seeks to be substituted for Gramercy and succeed to the rights, and assume the duties and obligations of Gramercy, under the Reinsurance Agreement as if Citadel had originally entered into the Reinsurance Agreement with Maiden; and



WHEREAS, Maiden consents to and accepts the replacement of Gramercy by Citadel.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the Parties agree as follows:

ARTICLE I

NOVATION AND SUBSTITUTION

- A. As of the Effective Date, as specified in Article II herein, Gramercy assigns to Citadel, which agrees to such assignment, all of its rights and benefits without limitation, known and unknown, actual or otherwise, under the Reinsurance Agreement and Gramercy and Citadel hereby agree that, as of the Effective Date, Citadel (i) assumes all liabilities and obligations of Gramercy under the Reinsurance Agreement in place of Gramercy as if Citadel had originally entered into the Reinsurance Agreement with Maiden, and (ii) shall perform and satisfy in full all of Gramercy's obligations under the Reinsurance Agreement in place of Gramercy.
- B. Maiden hereby consents to the foregoing assignment and assumption.
- C. As of the Effective Date, Maiden, on behalf of itself and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders, releases and discharges Gramercy and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders from any and all actions, causes of action, claims, debts, liabilities and obligations to Maiden of any kind, known or unknown, which have arisen or which may arise in the future under, or by reason of, the Reinsurance Agreement. As of the Effective Date, Gramercy, on behalf of itself and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders, releases and discharges Maiden and its successors, assigns, affiliates, officers, employees, directors, agents and shareholders from any and all actions, causes of action, claims, debts, liabilities and obligations to Gramercy of any kind, known or unknown, which have arisen or which may arise in the future under, or by reason of, the Reinsurance Agreement, it being expressly agreed that from the Effective Date and forward, Maiden shall look solely to Citadel for its participation under the Reinsurance Agreement with no recourse against Gramercy.

ARTICLE II

EFFECTIVE DATE

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ARTICLE III

WARRANTIES AND COVENANTS

- A. Each Party hereby represents and warrants to the other Parties as of the date hereof and the Effective Date that: (i) it is a corporation in good standing in its state of domicile; (ii) the execution of this Novation Agreement is expressly authorized by it (and, in the case of Gramercy, the Receivership Court and Chapter 443 of the Texas Insurance Code); (iii) its signatory hereto (and, in the case of Gramercy, the SDR) is duly authorized and legally empowered to enter into this Novation Agreement and the transactions contemplated herein on behalf of it; and (iv) there are no pending agreements, transactions, or negotiations to which it is a party that would render this Novation Agreement or any part thereof void, voidable or unenforceable.
- B. Gramercy hereby represents and warrants to Citadel as of the date hereof and the Effective Date that (i) the Reinsurance Agreement is now in full force and effect, (ii) all obligations of Gramercy under the Reinsurance Agreement are current, save and except the contingent commission payable to Maiden by GoAuto pursuant to the Program Management Agreement or by Citadel pursuant to the Reinsurance Agreement, (iii) no delinquency or default currently exists under the Reinsurance Agreement, and (iv) it is aware of no condition or circumstance which, with passage of time shall become manifest, will constitute a breach of or default under the Reinsurance Agreement.
- C. Maiden hereby confirms to Citadel that as of the date hereof and the Effective Date (i) the Reinsurance Agreement is now in full force and effect, (ii) all obligations of Gramercy under the Reinsurance Agreement are current, save and except the contingent commission payable to Maiden by GoAuto pursuant to the Program Management Agreement or by Citadel pursuant to the Reinsurance Agreement, (iii) no delinquency or default currently exists under the Reinsurance Agreement, and (iv) it is aware of no condition or circumstance which, with passage of time shall become manifest, will constitute a breach of or default under the Reinsurance Agreement.
- D. Each of the Parties hereby agrees to promptly execute and deliver such certificates, instruments and other documents, and take such other actions, as may reasonably be required by law or as may reasonably be requested by any other

Party in order to evidence or give effect to the transactions contemplated by this Novation Agreement.

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CHOICE OF LAW

This Novation Agreement shall be governed and construed in accordance with the laws of the State of Texas (regardless of the laws that might otherwise govern under applicable principles of conflicts law), and heard in the Receivership Court as to all matters, including, without limitation, matters of validity, construction, effect, performance and remedies.

ARTICLE V

ENTIRE AGREEMENT

This Novation Agreement (which includes the Recitals hereto), the Assumption Agreement, and that certain Assignment and Novation Agreement of even date herewith by and among Gramercy, Citadel and GoAuto relating to the Program Management Agreement, represent the entire agreement and understanding among the Parties. No other oral or written agreements or contracts relating to the subject matter hereof currently exist and/or are contemplated.

ARTICLE VI

COUNTERSIGNATURE

This Novation 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, and facsimile and electronic (in PDF format) copies of this Novation Agreement and signatures hereon shall be authorized and deemed effective.

ARTICLE VII

CONFLICT

This Novation Agreement shall be read and considered as an integral part of the Reinsurance Agreement and in the case of any conflict between this Novation Agreement and any part of the Reinsurance Agreement the provisions of this Novation Agreement shall prevail.

[Signature page follows]

IN WITNESS WHEREOF, the parties have entered into this Novation Agreement as of the date indicated below.

Gramercy Insurance Company in Rehabilitation

By: _____
Ernesto Garza, President
Resolution Oversight Corporation,
Special Deputy Receiver

Citadel Insurance Company

By: _____
Name: _____
Title: _____
Date: _____

Maiden Reinsurance Company

By: _____
Name: _____
Title: _____
Date: _____

AFFIDAVIT

STATE OF TEXAS

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§
§

COUNTY OF TRAVIS

BEFORE ME, the undersigned authority, appeared Ernesto A. Garza, who after being by me duly sworn, stated the following under oath:

1. "My name is Ernesto A. Garza. I am over the age of eighteen years. I am competent to make this Affidavit. The statements of fact in this Affidavit are true and correct, and are within my personal knowledge.
2. I am President of Resolution Oversight Corporation, the Temporary Special Deputy Receiver of Gramercy Insurance Company ("Gramercy"). I am authorized to make this Affidavit on behalf of the Special Deputy Receiver.
3. I have read the Application to Approve Assumption and Related Novation Agreements (GoAuto) ("*Application*"). I have also read the Exhibits attached and incorporated into the *Application* by reference.
4. Resolution Oversight Corporation ("ROC") has been the Special Deputy Receiver of Gramercy since December 5, 2012. The staff of ROC and the subcontractors engaged on the receivership estate will be collectively referred to as "my staff" herein. My staff has made a diligent review of the records of the receivership estate and those maintained as part of the business of Gramercy by its agents and adjusters concerning the matters at issue in the *Application*, conducted interviews of agents and adjusters, and reported the status of all matters discussed in the *Application* to me. All factual matters contained in *Application* were reported to me by a person on my staff with knowledge of the facts and in my capacity as President of ROC, in the course of ROC's administration of the receivership estate. I have formed and acquired my knowledge from the review of records and resulting status reports from my staff. I have formed my opinion based upon this knowledge.
5. I believe that the assumption price is fair value for Citadel Insurance Company to assume all of Gramercy's obligations under the policies underwritten by GoAuto Management Services, LLC ("GoAuto") pursuant to the Program Management Agreement with GoAuto, and that the related novations of the Program Management Agreement and reinsurance agreements issued to Gramercy by Maiden Insurance Company on the GoAuto policies, novating all obligations of Gramercy under the agreements are in the best interests of the estate, its policyholders and creditors."



6. The Affiant has nothing further to say.

/s/ Ernesto A. Garza
Ernesto A. Garza

SUBSCRIBED AND SWORN TO BEFORE ME on the 8th day of March 2013, by Ernesto A. Garza, on behalf of Resolution Oversight Corporation, Special Deputy Receiver of Financial Insurance Company of America.

/s/ Andra L. Gardner
Notary Public

My Commission Expires: December 5, 2016