

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of National General Insurance Company as of December 31, 2006

### ORDER

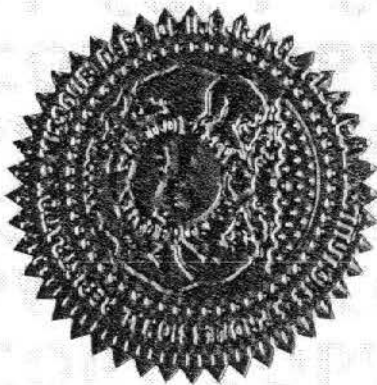
After full consideration and review of the report of the financial examination of National General Insurance Company for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Linda Bohrer, Acting Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER National General Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this June 20, 2008.

*Linda Bohrer*

Linda Bohrer, Acting Director  
Department of Insurance, Financial Institutions  
and Professional Registration



REPORT OF  
FINANCIAL EXAMINATION

# National General Insurance Company

As of:

DECEMBER 31, 2006



**FILED**  
JUN 30 2008  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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May 6, 2008  
Maryland Heights, Missouri

Honorable Alfred W. Gross, Commissioner  
Bureau of Insurance  
Virginia State Corporate Commission  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Merle D. Scheiber, Director  
Division of Insurance  
State of South Dakota  
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**National General Insurance Company**

hereinafter referred to as such or as the "Company". The Company's office is located at 13736 Riverport Drive, Suite 700, Maryland Heights, Missouri 63043, telephone number (314) 493-8000. Examination fieldwork began on July 9, 2007, and concluded on the date shown above.

**SCOPE OF EXAMINATION**

Period Covered

The last comprehensive financial examination of the Company was performed as of December 31, 2003, by examiners from the state of Missouri.

The current financial examination of the Company covers the period from January 1, 2004, through December 31, 2006, and was conducted by examiners from the state of Missouri. This examination also included material transactions or events occurring subsequent to December 31, 2006.

## Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) and statutes of the state of Missouri prevailed.

Workpapers of the Company's independent auditor, Deloitte & Touche LLP, were made available to the examiners for review. Standard examination procedures were modified as deemed appropriate under the circumstances.

## Comments - Previous Examination

### **1. Comment:** Accounts and Records

The Company is in violation of 20 CSR 200-4.010 (Books, Records, Accounts and Vouchers), both paragraph (3) "Location of Files," which states, "All financial books, records and accounts necessary for the annual statement of a Missouri insurer must be kept in a central location" and paragraph (4) "Time Limits," which states, "The insurer shall provide, within five (5) working days, any record requested by any duly appointed financial examiner . . ."

The General Motors holding company system is decentralized. Financial records are kept in various locations, and because of this it was difficult to obtain detailed documentation. Many requests took well over five working days.

We direct the Company to centralize its financial records or maintain an adequate audit trail that would expedite the response to financial information requests. This could significantly reduce the costs of future financial examinations.

### **Company Response:**

The Company responded as follows: "The Company's records are maintained in certain strategic locations to efficiently and effectively support the Company's business from an operational perspective by being readily available to management of the operating departments as needed."

### **Current Findings:**

Examiners participating in the current examination received requested information in a timely manner.

## HISTORY

### General

National General Insurance Company (NGIC) was incorporated on November 2, 1966, and commenced business as a stock property and casualty insurer in Missouri under Chapter 379 RSMo (Insurance other than life) on September 13, 1967. At its inception, 100% of the capital stock of NGIC was owned by NAVCO Corporation (NAVCO). On December 20, 1990, Motors Insurance Corporation purchased all the stock of NAVCO. Motors Insurance Corporation was owned by GMAC Insurance Holdings, Inc. which was owned by General Motors Acceptance Corporation, a subsidiary of General Motors Corporation. In December of 2002, NAVCO was merged into NGIC, resulting in Motors Insurance Corporation becoming the intermediate parent of the Company.

The organizational structure remained unchanged until 2006, when a 51% ownership stake of General Motors Acceptance Corporation was sold to FIM Holdings, LLC, a consortium of institutional investors led by Cerberus FIM Investors, Citigroup, Inc., Aozora Bank Ltd and a subsidiary of PNC Financial Services Group, Inc. At this time, General Motors Acceptance Corporation converted its form of organization from a corporation to a limited liability company, changing its name to GMAC, LLC.

### Capital Stock

The Company is authorized to issue 240,000 shares of common stock at a par value of \$25 per share and 200,000 shares of preferred stock at a par value of \$50 per share. There were 80,000 common shares and 50,000 preferred shares issued and outstanding as of December 31, 2006, resulting in a common capital stock account of \$2,000,000 and a preferred capital stock account of \$2,500,000.

### Dividends

The Company paid a dividend of \$4,000,000 to Motors Insurance Corporation during 2006. No other dividends were paid during the examination period. The dividend payment was within the statutory limits that did not require prior approval by the Department of Insurance, Financial Institutions and Professional Registration.

### Management

The Company's articles of incorporation call for a board of directors consisting of nine members. However, at December 31, 2006, there were only eight members. On November 26, 2007, the board selected another member. The board should take timely action to ensure that the appropriate number of directors serve on the board should an opening occur in the future.

Directors serving at December 31, 2006 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
John C. Beattie Winston-Salem, NC	Vice President, Human Resources
Bernard J. Buselmeier Wildwood, MO	Executive Vice President and Chief Financial Officer
David S. Murphy Winston-Salem, NC	Vice President and Chief Pricing Officer
Gerald D. Filler Hudson, OH	Vice President and Chief Information Officer
Gary Y. Kusumi Town and Country, MO	Chairman, President and Chief Executive Officer
Daniel C. Pickens Winston-Salem, NC	Vice President and Chief Actuary
Sheena E. Poe Clemmons, NC	Vice President, Secretary and Chief Claims Officer
James M. Curtin Atlanta, GA	Vice President and Chief Marketing Officer

Additional officers included:

<u>Name</u>	<u>Office</u>
Donald J. Bolar	Vice President and Treasurer
George H. Hall, Jr.	Vice President
Verne E. Purvines (retired in 2007)	Vice President and Assistant Secretary
Thomas W. Stuertz	Vice President



### Conflict of Interest

The Company and its affiliates have a policy which requires directors, officers and key employees to complete annual conflict of interest disclosure statements. Review of the most current disclosure statements found no instances of conflict of interest situations.

### Corporate Records

A review was made of the articles of incorporation and bylaws of the Company. The articles of incorporation had been amended to reflect the new location of the Company's offices. The bylaws were not amended during the period being examined.

The minutes of the meetings of the stockholder and board of directors were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions. The board of directors reviewed and approved the examination report as of December 31, 2003 on September 14, 2005.

### Acquisitions, Mergers and Major Corporate Events

The sale of a 51% interest in the Company's immediate parent to FIM Holdings, LLC was discussed above. There were no other major corporate events to note.

### Surplus Debentures

None.

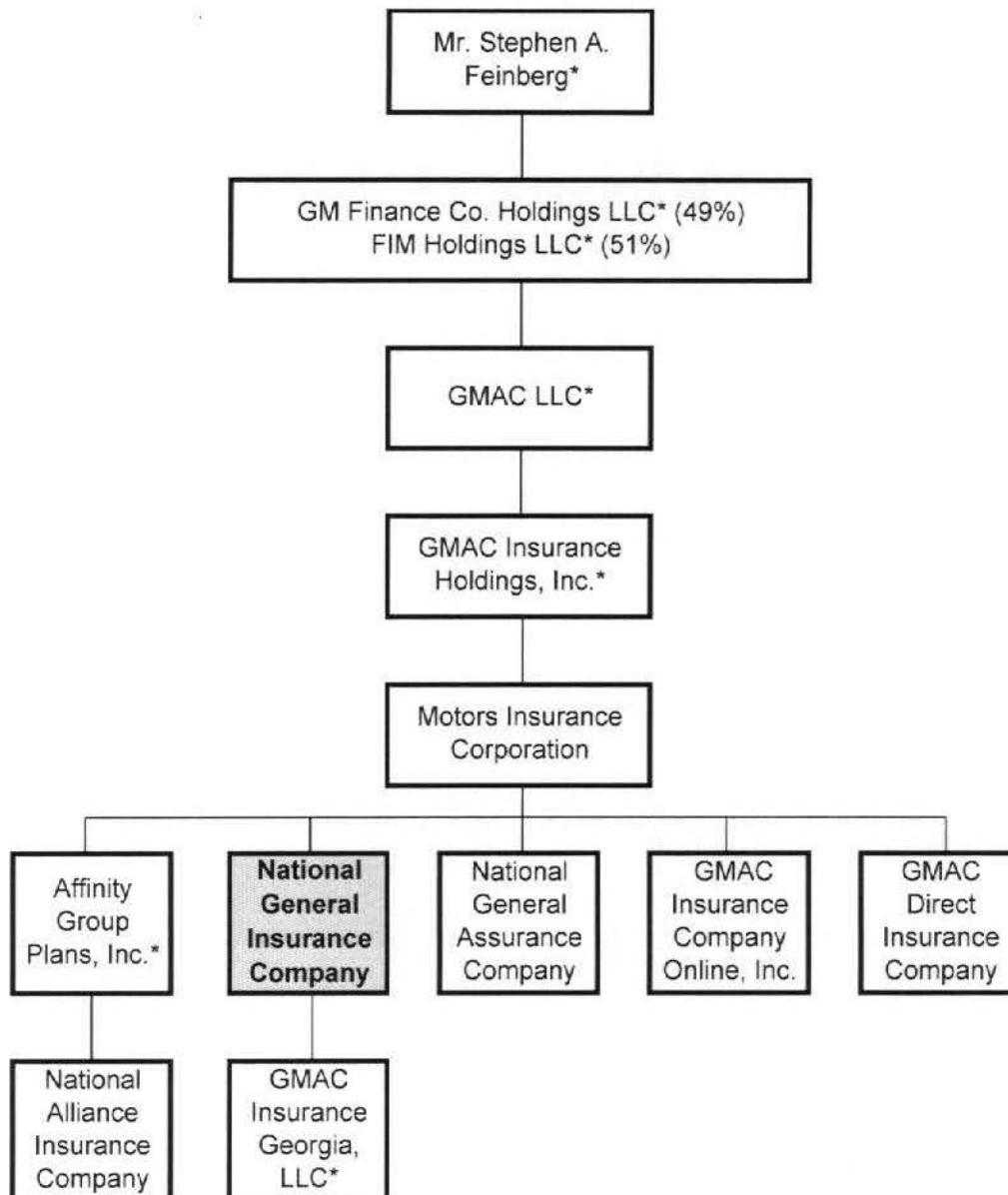
## **AFFILIATED COMPANIES**

### Holding Company, Subsidiaries and Affiliates

National General Insurance Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). Pursuant to Missouri Insurance Regulations 20 CSR 200-11.100 and Section 382.100 RSMo, the Company has filed Form B of the Insurance Holding Company System with the Department. The ultimate controlling person is Mr. Stephen A. Feinberg of Cerberus FIM, LLC.

### Organizational Chart

The following organizational chart depicts the ownership structure of the Company as of December 31, 2006. The chart shows only the Missouri domiciled insurers and their subsidiaries and the parent companies. Mr. Stephen A. Feinberg owns Cerberus FIM, LLC., the primary owner of FIM Holdings LLC. All other subsidiaries are wholly owned and non-insurance entities are identified with an asterisk.



Intercompany Transactions

The Company is a party to several intercompany agreements, which were reviewed and summarized below. These agreements were all filed with the Missouri Department of Insurance, Financial Institutions and Professional Registration.

1. Tax Allocation Agreement

The Company operated under two tax allocation agreements during the examination period. The first was effective as of December 9, 2002, and remained in place until November 30, 2006. The parties to the agreement included General Motors Corporation, General Motors Acceptance Corporation, GMAC Insurance Holdings Incorporated and its various subsidiaries which included Motors Insurance Corporation, the parent of the

Company. The current agreement became effective December 1, 2006. It is essentially the same as the previous agreement with the notable exception that General Motors Corporation and General Motors Acceptance Corporation are no longer part of the agreement.

Under these agreements, each subsidiary pays to Motors Insurance Corporation the separate subsidiary tax liability as determined by the hypothetical federal income tax return for the subsidiary. Within 15 business days prior to the date on which Motors Insurance Corporation is required to make estimated tax payments on behalf of the group, subsidiaries submit to Motors Insurance Corporation or its designee a calculation of the separate subsidiary estimated taxes, determined on the basis of the estimated separate subsidiary tax liability. Within 90 days following the filing of the consolidated federal income tax return, Motors Insurance Corporation notifies each subsidiary of the amount of the separate subsidiary tax liability and within 15 days after the notification, a settlement is made.

## 2. Services and Facilities Agreement

The parties to this agreement are GMAC LLC and GMAC Insurance Holdings, Inc. on behalf of all of its direct and indirect subsidiaries. The agreement is effective as of November 30, 2006, the date that FIM Holdings LLC became majority owner of GMAC LLC.

Each party agrees to furnish, upon request of the others, such qualified personnel, supplies, equipment, services and facilities reasonably and necessarily as the recipient party is authorized by law to perform. The services include, but are not limited to, the performance of various administrative, marketing actuarial, financial, tax, investment, information technology, real estate management, claims and underwriting, human resources, payroll and employee benefits, corporate communications, audit, risk management and legal functions. The sole consideration for the services and facilities to be provided is the actual cost of the same to the supplying party, without a profit factor built into cost. Each supplying party shall render to the recipient party notification of charges and expenses incurred in connection with this agreement at no less frequently than on a quarterly basis.

## 3. Investment Management Agreement

The parties to this agreement are General Motors Investment Management Corporation and Motors Insurance Corporation, including this company and various other subsidiaries. General Motors Investment Management Corporation manages the Company's cash and securities in accordance with investment guidelines established by the Company. Motors Insurance Corporation reimburses General Motors Investment Management Corporation semi-annually for the costs and expenses incurred by General Motors Investment Management Corporation. All disputes arising with respect to this agreement can be submitted to arbitration with one arbitrator to be chosen by Motors

Insurance Corporation and one by General Motors Investment Management Corporation.

### FIDELITY BOND AND OTHER INSURANCE

The Company is adequately insured under a crime policy issued to General Motors Corporation (GM) and affiliates. This policy provides fidelity coverage with a limit of \$350,000,000 and a deductible of \$25,000,000. The amount of the deductible is self insured by GM.

The Company is also protected by various policies issued to the affiliated group and includes liability coverages for employment practices, errors and omissions and directors and officers.

### EMPLOYEE BENEFITS AND PENSION PLAN

The Company has no employees. GMAC Insurance Holdings, Inc. and other affiliates provide services under the Services and Facilities Agreement.

GMAC Insurance Holdings, Inc. provides its employees with benefits typical for the industry including, health insurance (medical, dental, vision), group life insurance, long and short term disability benefits, a retirement savings plan, pension plan and paid leave.

### STATUTORY DEPOSITS

#### Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2006, as reflected below, were sufficient in par and market value to meet the minimum requirement of \$1,200,000 in accordance with Section 379.098 RSMo – Security Deposits.

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U. S. Treasury Bond	<u>\$ 2,500,000</u>	<u>\$ 2,612,750</u>	<u>\$ 2,556,847</u>

#### Deposits with Other States

The following funds were on deposit with other states as of December 31, 2006:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	US Treasury Bond	\$ 50,000	\$ 52,223	\$ 51,137
Florida	US Treasury Bond	75,000	78,334	76,705
Georgia	US Treasury Bond	50,000	52,223	51,137
Louisiana	US Treasury Bond	20,000	20,889	20,455
New Mexico	US Treasury Bond	300,000	313,335	306,822
North Carolina	US Treasury Bond	300,000	313,335	306,822
Oregon	US Treasury Bond	100,000	104,445	102,274
Virginia	US Treasury Bond	50,000	52,223	51,137
Total		<u>\$ 895,000</u>	<u>\$ 987,007</u>	<u>\$ 966,489</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance other than life) to write property, liability and miscellaneous insurance. The Company is also licensed in all other states and the District of Columbia.

The Company's business is primarily produced through direct response programs marketed to affinity groups and associations. The business is concentrated in the mature risk, recreational vehicle and multi-car segment of the market.

### Policy Forms & Underwriting; Advertising and Treatment of Policyholders

The Department has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. No market conduct examination was completed during the examination period. The most recent examination was conducted as of December 31, 2001.

## **REINSURANCE**

The Company's premiums on a direct written and ceded basis for the current examination period were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct Business	\$ 302,463,678	\$ 311,622,653	\$ 298,393,417
Reinsurance Assumed	14,301,952	17,128,240	17,753,796
Reinsurance Ceded	(285,426,833)	(292,632,730)	(281,650,265)
Net Premiums	<u>\$ 31,338,797</u>	<u>\$ 36,118,163</u>	<u>\$ 34,496,948</u>

### Assumed

Over 99% of assumed premiums are from Home State County Mutual Insurance Company (Home State). This treaty is a fronting arrangement under which Home State writes private passenger automobile business in Texas. The Company assumes 100% of that business.

The remaining assumed premiums are from mandatory pools and associations.

### Ceded

The Company cedes most of the business currently being written. Ninety percent of the net retained premiums, losses, costs, assessments, expenses and other liabilities are ceded to Motors Insurance Corporation, an affiliate, under a quota share treaty.

The Company has a ceding agreement with Munich Reinsurance America, Inc. for automobile casualty clash and excess of loss reinsurance for \$3 million excess of \$2 million (first layer).

The second and third layers of automobile casualty clash and excess of loss reinsurance provide \$5 million excess of \$5 million and \$15 million excess of \$10 million, respectively. These coverages are managed by Guy Carpenter through agreements with six different carriers.

The Company also has an aggregate excess of loss reinsurance contract covering auto comprehensive damage. This agreement is managed by Benfield, Inc. and is placed with Partners Reinsurance Company, Ltd. The coverage is \$10 million excess of \$15 million aggregate for the year.

The Company entered into a quota share treaty with Homesite Indemnity Company effective December 16, 2000 under which the Company ceded 100% of its net retained liability on homeowners' multi peril policies. Concurrently, the Company executed an agreement with Homesite Group Incorporated that provided for a joint marketing program. Under this agreement, subsidiaries of Homesite Group Incorporated would eventually write the homeowner business that was insured by the Company. The Company's last remaining policy was transferred to Homesite Group in January 2007.

The Company cedes to mandatory private passenger auto pools in Michigan and New Jersey. These sessions account for less than 1% of premiums.

## **ACCOUNTS AND RECORDS**

### Independent Auditor

The Company's financial statements were audited by the firm of Deloitte & Touche LLP for the period covered by this examination.

### Company Actuaries

Dan Pickens, FCAS, MAAA, provided the actuarial opinions for the Company for 2006 and 2005. The 2004 opinion was provided by Matthew Carrier, ACAS, MAAA, from the firm of Deloitte Consulting LLP.

### Consulting Actuary

The Department contracted Jon W. Michelson, FCAS, MAAA, from Expert Actuarial Services, LLC to evaluate the adequacy of the Company's loss related reserves. His evaluation concluded that the Company's reserves at December 31, 2006 were adequate.

### Information Systems Examination Specialist

The Department's Information Systems Examination Specialist, Andy Balas, evaluated data processing controls and no exceptions were noted.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2006, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

## BALANCE SHEET

As of December 31, 2006

Assets	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 52,687,249	\$ -	\$ 52,687,249
Cash	8,527,421	0	8,527,421
Other invested assets	709,185	709,185	0
Investment income due and accrued	877,307	0	877,307
Uncollected premiums in the course of collection	2,597,260	59,836	2,537,424
Deferred premiums	18,237,115	0	18,237,115
Amounts recoverable from reinsurers	15,927,506	0	15,927,506
Net deferred tax asset	1,163,141	393,010	770,131
Guaranty funds receivable or on deposit	32,920	0	32,920
Electronic data processing equipment and software	131,950	125,218	6,732
Furniture and equipment	19,439	19,439	0
Total Assets	\$ 100,910,493	\$ 1,306,688	\$ 99,603,805
<b>Liabilities</b>			
Losses			\$ 12,758,327
Loss adjustment expenses			2,276,799
Commissions payable			3,900
Other expenses			1,193,779
Taxes, licenses and fees			170,802
Current federal and foreign income taxes			1,787,223
Unearned premiums			7,295,507
Advance premium			509,441
Ceded reinsurance premiums payable			29,086,166
Funds held by company under reinsurance treaties			529,530
Amounts withheld or retained by company			55,964
Remittances and items not allocated			23,234
Payable to parent, subsidiaries and affiliates			4,959,891
Aggregate write-ins for liabilities			106,956
Total Liabilities			\$ 60,757,520
<b>Surplus</b>			
Common capital stock			\$ 2,000,000
Preferred capital stock			2,500,000
Gross paid in and contributed surplus			11,059,257
Unassigned funds (surplus)			23,287,027
Surplus as Regards Policyholders			\$ 38,846,284
Total Liabilities and Surplus			\$ 99,603,805



## INCOME STATEMENT

For the year ended December 31, 2006

Premiums earned		\$ 32,456,893
Losses incurred	19,484,267	
Loss expenses incurred	2,606,878	
Other underwriting expenses incurred	9,218,885	
Aggregate write-ins for underwriting deductions	(78,326)	
<i>Less: Total underwriting deductions</i>	<u>31,231,704</u>	
Net income of protected cells	0	
Net underwriting gain (loss)		1,225,189
Net investment income earned	2,714,386	
Net realized capital gains (losses)	(156,810)	
Net investment gain (loss)		<u>2,557,576</u>
Net gain (loss) from premium balances charged off	(93,442)	
Finance and service charges not included in premiums	297,958	
Aggregate write-ins for miscellaneous income	325,287	
Total other income		<u>529,803</u>
Net income before dividends to policyholders		4,312,568
Dividends to policyholders		<u>0</u>
Net income, after dividends to policyholders		4,312,568
<i>Less: Federal and foreign income taxes incurred</i>		<u>1,741,698</u>
Net income		<u><u>\$ 2,570,870</u></u>

## CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31, 2005		\$ 40,961,804
Net income	2,570,870	
Change in net deferred income tax	136,055	
Change in nonadmitted assets	(822,445)	
Dividends to stockholders	(4,000,000)	
Change in surplus as regards policyholders for the year		<u>(2,115,520)</u>
Surplus as regards policyholders, December 31, 2006		<u><u>\$ 38,846,284</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **GENERAL COMMENTS AND RECOMMENDATIONS**

Management,

page 3

The board of directors had eight members as of December 31, 2006 while the articles of incorporation call for a board consisting of nine members. This condition existed until November 26, 2007 when the ninth member was selected. In the future, the board should fill vacancies in a timely manner.

### **SUBSEQUENT EVENTS**

None.



# GMAC Insurance

June 11, 2008

Frederick G. Heese  
Missouri Department of Insurance  
PO Box 690  
Jefferson City, MO 65102-0690

Dear Mr. Heese:

We received the Examination Report for National General Insurance Company, the "Company", for the period ending December 31, 2006. This letters serves as the Company's response to the Examination Report.

Page 8 of the Examination Report labeled Employee Benefits and Pension Plan assumes GMAC Insurance Holdings, Inc. was the employer which is incorrect. The employer that provides these benefits to employees is GMAC Insurance Management Corporation. In addition, Page 14 of the report labeled General Comments and Recommendations contains a comment regarding the number of members on the board of directors being inconsistent with the articles of incorporation. At this time the board of directors contains nine members which is the number required per the articles of incorporation.

We would like this response to be included in the report as a public document.

Should you need additional information please contact me by phone – 336.770.2218 or by email, [Rebecca.Boone@gmacinsurance.com](mailto:Rebecca.Boone@gmacinsurance.com).

Regards,



Rebecca Boone  
Assistant Treasurer  
GMAC Insurance – Personal Lines

RECEIVED

JUN 19 2008

INSURANCE SOLVENCY  
COMPANY REGULATION