

Volume 2, Winter 2004

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For additional information or clarification regarding any of the articles published in *The Guardian*, please contact Ms. Paula Anders, **WNC**First Corporate Development Coordinator at paanders@wncfirst.com

Hot Issues

An Overview: The Texas Collateral Protection Insurance Act

by Phi-Hang A. Tran

In 2001, the Texas Legislature passed the Collateral Protection Insurance Act ("Act"), Chapter 307, Finance Code, which allows a creditor the right to purchase insurance on collateral in the event the debtor fails to obtain, maintain, or provide evidence of insurance covering the collateral if coverage is required by the creditor pursuant to a credit agreement.

What is the Collateral Protection Insurance Act?

The Act gives creditors a statutory right to purchase collateral protection insurance if the debtor fails to obtain, maintain, or provide evidence of insurance coverage as required under the credit agreement between the parties. However, the Act does not require creditors to purchase collateral protection and the Act does not create a cause of action in connection with the placement or nonplacement of collateral protection insurance. The Act has a "safe harbor" provision that gives a creditor immunity from lawsuits by a debtor, cosigner, or guarantor, as long as the creditor places the insurance in compliance with the Act.

From The President's Desk

Happy New Year!

by Carl L. Herrmann, III

First, as we enter the new year, **WNC**First Insurance Services would like to express our appreciation to all our agents, clients and customers for the opportunity to partner with you during this past year. We are proud of the relationships **WNC**First has developed with you and pledge our continued efforts to further solidify these relationships.

Second, for **WNC**First, 2004 will truly be a new year. To start our new year we recapitalized our financial foundation by expanding our shareholder base. Frontenac Company, a Chicago-based private equity firm, has made a substantial investment and is now a majority financial partner. To properly structure this investment, we have formed **WNC** Insurance Holdings Company for which **WNC**First Insurance Services becomes a wholly-owned subsidiary.

We recognize that this change is important to you, our client base, and your customers, our insureds. However, please be assured that there will be no changes in our management, staffing, the dedication we have to effectively and satisfactorily serving our customers, or the way we respond to product and market needs. We are completely confident in making the commitment that our normal high-level of customer service and product leadership will not only continue, but will be strengthened by this new financial partnership.

In addition, the increased financial strength created by our new partnership provides **WNC**First numerous opportunities for 2004 and beyond. We will be looking at ways to expand our servicing capabilities and methods to more effectively respond to our clients' needs. In addition, by expanding our technological capabilities in an effort to optimize your efficiencies, we hope to further reduce your costs to administer the business. We will also have the financial flexibility to seek our expanded, innovative new product opportunities, in order to increase our product offerings providing you the ability to be more competitive in the marketplace.

This new partnership also expands our level of management expertise through the addition of two senior level managers. Joining **WNC**First Insurance Services as CEO is Richard "Dick" Riley. Dick was formerly Vice Chairman of Aon Corporation and Chairman of the Americas retail brokerage for Aon. Rob Goss, former CFO of the Americas retail brokerage for Aon, will also join **WNC**First Insurance Services as CFO.

So, as **WNC**First enters 2004, we do so with enthusiasm and excitement in our newly created financial structure, and we believe that it will allow us to better serve our clients by providing you expanded profit and servicing enhancement opportunities.



Who is protected under the Act?

The principal purpose of the Act is to protect the interests of the creditor in the event a debtor fails to insure collateral as required by the credit agreement. The Act defines "creditor" as a person who is a lender of money, a vendor, or a lessor of goods, services, property rights, or privileges for which a payment is arranged through a credit

transaction and includes any successor to the rights, title, interest, or liens of the lender, vendor, or lessor.

What is collateral protection insurance?

Collateral protection insurance is defined under the Act as insurance that is:

- (1) purchased by a creditor after the date of a credit agreement;

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- (2) provides monetary protection against loss of or damage to the collateral or against liability arising out of the ownership or use of the collateral; and
- (3) is purchased according to the terms of a credit agreement as a result of a debtor's failure to provide evidence of insurance or failure to obtain or maintain insurance covering the collateral, with the costs of the collateral protection insurance, including interest and any other charges incurred by the creditor in connection with the placement of collateral protection insurance, payable by a debtor.

The Act also enumerates certain types of insurance that are NOT considered collateral protection insurance including insurance which is: purchased by the creditor for which the debtor is not charged; credit insurance, mortgage protection insurance, insurance issued to cover the life or health of the debtor, or any other insurance maintained to cover the inability or failure of the debtor to make payment under the credit agreement; title insurance; or flood insurance.

What are the requirements under the Act?

A creditor who requires collateral protection insurance that is paid for directly or indirectly by a debtor may place collateral protection insurance if: (a) the debtor has entered into a credit agreement; (b) the credit agreement requires the debtor to maintain insurance on the collateral; and (c) notice has been included in the credit agreement or a separate document provided to the debtor at the time the credit agreement is executed.

The notice needs to state that the debtor is required to insure the collateral in an amount equal to the debtor's indebtedness, that the insurance be purchased from an authorized insurer, name the creditor as the person to be paid under the policy in the event of a loss, the time/date for delivery of proof of payment of premiums and a copy of the policy, and the right of the creditor to obtain collateral protection insurance on behalf of the debtor at the debtor's expense if the debtor fails to do so.

If the creditor chooses to obtain collateral protection insurance, the creditor must mail a second notice to each debtor (and cosigner or guarantor, if applicable) at the last known address on file that states that the creditor has

or will purchase collateral protection insurance on behalf of the debtor at the debtor's expense, the type/extent of coverage, the policy period, the total cost of the policy, the annual interest rate charged on the cost of insurance, payment options, and any applicable interest or finance charges. This second notice must be sent no later than 31 days after the date the collateral protection insurance is charged to the debtor.

Under the Act, a creditor may delegate the notice requirements to the insurer or insurer's agent.

Finally, the debtor may, at any time, cause the cancellation of the collateral protection insurance by providing proof of insurance as required by the credit agreement. The creditor is required to refund or give credit for any unearned premiums to the debtor.

What is the effective date of the Act?

September 1, 2001.

Legislative Update – current through August 2003

The Texas Legislature recently amended the Collateral Protection Insurance Act * to include a provision that allows a creditor to obtain collateral protection insurance covering real property in amounts equal to either the replacement cost of improvements or the amount of unpaid indebtedness, subject to policy limits. The debtor is obligated to reimburse the creditor for premiums paid and any other associated finance charges or fees. Additionally, a creditor may use previous evidence of insurance coverage provided by the debtor to determine the sufficient level of replacement cost coverage.

If a creditor chooses to obtain collateral protection insurance covering real property, a notice must also contain language that states: (a) coverage may be available to the debtor through the Texas FAIR plan* at a lower cost; and (b) contact information about the Texas FAIR plan*, in addition to the other required information listed above.

These amendments to the Act under S.B.1211 only apply to a credit agreement entered into or after June 20, 2003, the effective date. A credit agreement entered into before the effective date is governed by the law in effect when the credit agreement was entered into, and the former law applies.

For more information or a copy of the Act and amendments to same under S.B.1211, see the

Texas Legislature's official website at www.capital.state.tx.us.

* The Texas Fair Access to Insurance Requirements (FAIR) plan was established by the Texas Insurance Commissioner on October 2002 to deliver residential property insurance to citizens of the state in underserved areas. In January of 2003, the Texas FAIR Plan Association officially launched a homeowners insurance market-of-last-resort in Texas with 450 insurance agencies to sell residential property insurance to qualified consumers (those declined at least twice) who are having difficulty obtaining residential property insurance coverage from licensed insurance companies. For more information, see the Texas FAIR Plan Association's website at www.tdi.state.tx.us and www.texasfairplan.org



Phi-Hang A. Tran

Ms. Tran is an associate with Munisteri, Sprott, Rigby, Newsom & Robbins, P.C. in Houston, Texas. Ms. Tran's primary practice is in the areas of commercial litigation, premises and products liability, and insurance defense. She has been published in *The Houston Lawyer* and been a contributing writer for the *Business Suit Litigation Newsletter* published by the Defense Research Institute. Prior to attending law school, Ms. Tran was a policy/bill analyst for the Texas Senate.

For questions or comments, she can be contacted at tran@msrnr.net.

Focus on Acquisition

The New Milwaukee Office

In the Fall 2003 issue of *The Guardian*, **WNC**First announced the acquisition of Insurance Management Services, Inc. (IMS) - the premier optional insurance marketing firm servicing the financial institution marketplace.

While many of you will have the opportunity to work with IMS, we thought you'd appreciate a corporate overview versus braving the Midwestern winter weather to visit.

IMS is a specialty-marketing firm that provides products, administrative support, and consulting services to financial institutions throughout the United States. The organization has earned a reputation as a leader in the design and facilitation of creative marketing strategies for

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The Technology Bulletin

Technology Calls and WNCFirst Answers

by Ron Wornell, Chief Information Officer

2003 has been a challenging year for WNCFirst. Growth through acquisition and product development have occurred to a significant degree.

I thought you might like to know what our IT department is doing to provide service to this rapidly growing enterprise.

First, to support our 2004 company plans, we are modifying the IT infrastructure (organization, processes, procedures, software tools) and IT security mandated by regulation and the policies of our customers. Security has become a big issue, post 9/11. In the past our products and services were the main drivers in signing new customers and retaining existing ones. Now need to add a third dimension - "Security". Security simply defined is the processes we have in place to protect our customer's sensitive data. This includes data security and business interruption security. This requirement is sensible if customers are going to entrust us with their data and business process. They can be assured we take that responsibility seriously. Our actions in 2004 will prove that commitment.

Secondly, as we have grown we have gone from two or three locations and three or four products to at least seven locations and over 30 products, with more locations and products on the way.

To address this, a policy administration team was assembled to research single point entry and enterprise-wide policy administration technology to support both voluntary and involuntary products. They needed to find technology that would support our myriad of products, services and locations. The selected technology needed to be Internet focused, utilizing modern technology tools and provide the ancillary services of claims, accounts receivable and money management. The team selected an IT partner, working with us to develop this new technology.

Implementation is no small task and will begin its first four products in 2004. A significant contribution of all employees is imperative if we are to be successful. Success means we can process transactions in a smoother, integrated,

Claims Center

Mudslide Risk

by Lynne Miller, VP/Claims & Flood Products

Well, California has had the fire and the earthquakes and now the rain and water, we are only missing the locusts.

After the recent fires in California, mudslide has become a real concern and risk. Unfortunately, we have already seen a fatal mudslide in the burn area in the San Bernardino Mountains. Those fires scorched more than 91,000 acres, killing four people and destroying 993 homes throughout the region. With the loss of the underbrush, the rainy season can cause the hillsides to slide because there is no root system to help hold everything in place.



The torrential rainstorm dumped well over two inches of rain on the greater Los Angeles area and more than three inches in the canyon area. The rains caused the collapse of hillsides denuded two months earlier by the worst wildfires in California history.

Most of the hazard policies are not going to cover landslide, however, the flood policies may provide coverage if the mudslide is related to a flood event.

In California we are seeing many cases where there is a real diligent effort to replant the burned hillsides, and we hope that the growth will take root before the rains become too heavy.

highly productive manner that will meet or exceed our competition and allow us to grow.

We have also scheduled an upgrade of our server technology to Windows Server 2003, with a planned implementation to be complete by May, 2004.

You are our customers, and we promise to support you in any way we can to make WNCFirst the premier company with whom customers want to do business.

Who is WNCFirst?



Lisa Cooper, Hazard Product Manager

Lisa's title is Hazard Product Manager, but in the Orange City, Florida operation of 21 people, that title carries many responsibilities. These include assisting with marketing and marketing materials, overseeing new client implementations, premium production, outsourced tracking operations; as well as policy forms review and product design.

Outside of work, Lisa enjoys the company of her friends, the quiet company of her cat, Max, and any time she can get on the water. She enjoys jet skiing, boating and just reading on the beach. Her family all live close by, so she's able to grab time with "other peoples kids" when she needs a fix, and give them back when she's done, she says, tongue in cheek. She loves her 5 nieces and 2 nephews. Lisa also loves to shop and travel. Most of her travel is work related, but she always tries to make the most out of weekend opportunities and take the time to enjoy the places she is fortunate enough to visit.

WNC Cares

In December, the Milwaukee office sponsored a family in need. The family - comprised of grandmother, mother, and five children under the age of twelve - lived humbly in a one-bedroom apartment.

When employees heard of the opportunity to give back to the community, the response was over-whelming! Every person in the IMS office participated. People donated everything from food to clothes and money to toys. When the items were finally brought together, the family was to receive nearly two truckloads full.

The small apartment was overwhelmed with goods and hope. The mother couldn't believe her eyes. While the sponsorship of the family was just for the holiday season, IMS employees are discussing ways in which to help the family once again.

Conference Update

Mortgage Bankers Association (MBA) National Mortgage Servicing Conference & Expo

February 18-20, 2004 – San Diego
Marriott Hotel and Marina, San Diego, CA

Join servicers, investors and service providers at MBA's 2004 National Mortgage Servicing Conference & Expo, as they deliver the Keys to Success.

Bank Insurance & Securities Association (BISA)

17th Annual Convention
March 13-16, 2004 – *Doral Golf Resort,
Miami, FL*

Keynotes from different sectors of the financial services industry, case studies of successful programs, special legislative and regulatory updates, research roundtables, presentation of the annual BISA Awards, and much more.

Consumer Bankers Association (CBA) 24th National Automobile Finance Conference & Trade Show

March 14-16, 2004 – *Hyatt Regency
Atlanta, Georgia*

For over 20 years CBA's automobile finance conference and tradeshow has been the premier event in its field, drawing the top industry executives from the world of retail banking and finance companies

Independent Community Banker's Association (ICBA)

National Convention & Techworld
March 14-18, 2004 – *San Diego, CA*

In its 74th year, the ICBA continues the tradition of community banking's most comprehensive educational event.

Focus on Acquisition *continued from page 2*

the mortgage industry. Its goal is to develop a long-term win-win alliance with our clients that will allow them to improve profit and strengthen their relationship with their customers.

They've built a complement of products and services that will meet the needs of virtually any mortgage portfolio. Each product maintains certain qualifications for use, usually based on portfolio size. All are financial protection and/or home-related products. Some of the products IMS markets are; Accidental Death, Critical Illness, Home Warranty, Hospitalization Income, Identity Theft, Mortgage Life, Mortgage Accidental Death, and Mortgage Disability.

Contact Dava Wittig, Managing Vice President of Business Development, at 262-789-8202 for more information and a complete product listing.

If you have questions regarding information disseminated at these meetings or if you need information about upcoming conferences just contact:

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