

**STATE OF MINNESOTA
DEPARTMENT OF COMMERCE**

**In Re: The Matter of the Liquidation of
Minnesota Surety and Trust Company**

SECOND BIENNIAL REPORT

GENERAL REPORT OF PROCEEDINGS

November 30, 2015

Pursuant to the requirements of Minnesota Statutes section 60B.09, the Commissioner of Commerce provides the following biennial report of proceedings as of November 30, 2015:

1. The Minnesota District Court placed Minnesota Surety and Trust Company (MSTC) in liquidation on November 22, 2011 and appointed the Commissioner of the Minnesota Department of Commerce as liquidator.
2. There are no other proceedings under Minnesota Statutes sections 60B.15, 60B.20, 60B.52, 60B.53, and 60B.55 pending against other insurers.
3. As provided by Minnesota Statutes section 60B.01, subdivision 4, the purpose of the liquidation of MSTC was to protect the interests of insureds, creditors, and the public generally.
4. No orders were issued against MSTC pursuant to Minnesota Statutes sections 60B.11, 60B.12 or 60B.13.

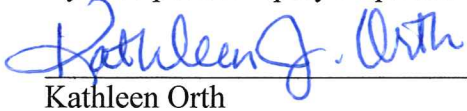
MSTC- Causes of Liquidation

5. MSTC was a Minnesota domiciled and licensed insurance company operating out of Austin, Minnesota. MSTC was engaged in the business of writing property and casualty insurance, with fidelity and surety as its primary lines of business. MSTC acted as the surety for bail and immigration bonds in several states including Minnesota, Utah and Colorado. In addition, MSTC also operated as a trust company from the same location.
6. Effective May 22, 2011, MSTC consented to the revocation of its certificate of authority to operate an insurance business in Colorado. The revocation was related to a market conduct examination in Colorado.
7. On November 22, 2011, MSTC was placed into liquidation in Minnesota based upon the following documented factors:
 - a) MSTC failed to maintain its surplus above the statutory minimum amount.

- b) MSTC failed to find a successor trustee for its trust business as required by the Department.
 - c) MSTC improperly admitted affiliate receivables which caused its surplus position to be overstated.
 - d) On June 30, 2011, MSTC's Report of Condition and Income reported negative Equity Capital of \$32,454 and negative year to date income of \$404,873.
 - e) MSTC's trust charter and certificate of authority were revoked by the Department by Consent Orders on November 10, 2011 and November 17, 2011 respectively.
8. The basic causes and contributing factors that made the initiation of formal liquidation proceedings against MSTC necessary include: (1) the revocation of its certificate of authority in Colorado with a finding that records had been altered, (2) a history of under capitalization as evidenced by the consistent need for surplus notes to meet minimum surplus requirements, and (3) inadequate recordkeeping and inadequate systems including the lack of an integrated policy, claims and accounting system. Additionally, MSTC operated from a single location with common management and operations for the insurance company, trust company and a law firm. The various types of products offered as an insurer included bail bonds, immigration bonds, notary bonds, and other types of surety bonds. Simultaneously, MSTC acted as a trustee for individual accounts and set up safe deposit box operations and cashier stations. Based on the above factors, the Commissioner initiated liquidation proceedings against MSTC.
9. At this time, the Commissioner has not identified the need for any legislative changes to Minnesota Chapter 60B based on these liquidation proceedings.

MIKE ROTHMAN
Commissioner

By his Special Deputy Liquidator


Kathleen Orth

Date: 3/25/16