



## Texas Department of Insurance

Legal & Compliance, Mail Code 110-1A  
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FILED  
03 APR 24 PM 2:57

April 24, 2003

Mr. Bruce McCandless III  
Long, Burner, Parks, McClellan & DeLargy  
515 Congress Avenue, Suite 1500  
Austin, Texas 78701

**CERTIFIED MAIL NO**  
**7002 0860 0001 0937 8520**  
**RETURN RECEIPT REQUESTED**

Mr. Lyndell Haigood  
President/CEO  
Beacon National Insurance Company  
2915 Central Expressway East  
Wichita Falls, Texas 76307

**CERTIFIED MAIL NO.**  
**7002 0860 0001 0937 8537**  
**RETURN RECEIPT REQUESTED**

**RE: NOTICE OF PUBLIC HEARING IN DOCKET NO. 454-03-2880.D TO CONSIDER WHETHER DISCIPLINARY ACTION SHOULD BE TAKEN AGAINST THE BEACON NATIONAL INSURANCE COMPANY, WICHITA FALLS, TEXAS, A DOMESTIC FIRE CASUALTY COMPANY WHICH HOLDS A CERTIFICATE OF AUTHORITY ISSUED BY THE TEXAS DEPARTMENT OF INSURANCE TO ENGAGE IN THE BUSINESS OF INSURANCE IN THE STATE OF TEXAS.**

**RE: NOTICE OF PUBLIC HEARING IN DOCKET NO. 454-03-2932.D TO CONSIDER WHETHER DISCIPLINARY ACTION SHOULD BE TAKEN AGAINST THE PETROLIA INSURANCE COMPANY, WICHITA FALLS, TEXAS, A DOMESTIC FIRE CASUALTY COMPANY WHICH HOLDS A CERTIFICATE OF AUTHORITY ISSUED BY THE TEXAS DEPARTMENT OF INSURANCE TO ENGAGE IN THE BUSINESS OF INSURANCE IN THE STATE OF TEXAS.**

**RE: NOTICE OF PUBLIC HEARING IN DOCKET NO. 454-03-2931.D TO CONSIDER WHETHER DISCIPLINARY ACTION SHOULD BE TAKEN AGAINST THE FIRST PREFERRED INSURANCE COMPANY, WICHITA FALLS, TEXAS, A DOMESTIC FIRE CASUALTY COMPANY WHICH HOLDS A CERTIFICATE OF AUTHORITY ISSUED BY THE TEXAS DEPARTMENT OF INSURANCE TO ENGAGE IN THE BUSINESS OF INSURANCE IN THE STATE OF TEXAS.**

Dear Mr. McCandless and Mr. Haigood:

Please consider this formal notice that a public hearing will be held before an Administrative Law Judge at **9:00 a.m. on August 5, 2003 and at 9:00 a.m. on August 6, 2003**, in the offices of the State Office of Administrative Hearings, William P. Clements Building, 300 West Fifteenth Street, 4<sup>th</sup> Floor, Austin, Texas, 78701. The hearing shall be conducted in accordance with the provisions of TEX. GOV'T CODE, Chapter 2001 and 1 TEX. ADMIN. CODE, Chapter 155. Unless otherwise directed by the Administrative Law Judge, the hearing shall continue from day to day in the offices of the State Office of Administrative Hearings until concluded.

**PURSUANT TO 1 TEX. ADMIN. CODE § 155.55 AND 28 TEX. ADMIN. CODE §§ 1.88 AND 1.89, IF YOU DO NOT FILE A WRITTEN RESPONSE TO THIS NOTICE WITH THE STATE OFFICE OF ADMINISTRATIVE HEARINGS WITHIN 20 DAYS OF THE DATE THIS NOTICE WAS MAILED, THE SCHEDULED HEARING MAY BE CANCELED AND THE COMMISSIONER OF INSURANCE MAY ISSUE AN ORDER IN WHICH THE ALLEGATIONS IN THE NOTICE OF HEARING ARE DEEMED ADMITTED AS TRUE AND GRANT THE RELIEF SOUGHT IN THIS NOTICE OF HEARING BY DEFAULT. IF YOU FILE A WRITTEN RESPONSE BUT THEN FAIL TO APPEAR ON THE DAY AND TIME SET FOR HEARING, THE COMMISSIONER OF INSURANCE MAY ISSUE AN ORDER IN WHICH THE ALLEGATIONS IN THE NOTICE OF HEARING ARE DEEMED ADMITTED AS TRUE AND GRANT THE RELIEF SOUGHT IN THIS NOTICE OF HEARING BY DEFAULT.**

**IMPORTANT SECURITY NOTICE:**

**ALL VISITORS TO THE WILLIAM P. CLEMENTS BUILDING WITHOUT AN AGENCY OR DPS ISSUED ID CARD (DRIVERS LICENSE IS NOT SUFFICIENT) MUST PROVIDE THE BUILDING SECURITY OFFICER WITH THE STATE OFFICE OF ADMINISTRATIVE HEARINGS DOCKET NUMBER(S) 454-03-2880.D, 454-03-2931.D, AND 454-03-2932.D AND RECEIVE A VISITOR'S PASS IN ORDER TO BE ALLOWED ACCESS TO THE HEARING ROOM. INDIVIDUALS SHOULD ALLOW ADDITIONAL TIME TO GO THROUGH THE SECURITY PROCESS.**

In accordance with the provisions of 28 TEX. ADMIN. CODE § 1.90(e) and 1 TEX. ADMIN. CODE §§ 155.23 and 155.25, copies of such written response should be sent to:

- (1) Docketing Division  
State Office of Administrative Hearings  
300 West 15<sup>th</sup> Street  
Room 504  
P.O. Box 13025  
Austin, Texas 78711-3025;
- (2) Chief Clerk  
Texas Department of Insurance, MC113-2A  
P. O. Box 149104  
Austin, Texas 78714-9104; and
- (3) Margaret Jonon  
Texas Department of Insurance  
Legal and Compliance, MC110-1A  
P. O. Box 149104  
Austin, Texas 78714-9104.

The Commissioner of Insurance has authority and jurisdiction pursuant to TEX. INS. CODE ANN. §§ 38.001, 82.051-82.055, and 84.001 et seq., and TEX. GOV'T. CODE ANN. §§ 2001.051-2001.178.

Beacon National Insurance Company is a domestic fire and casualty company which holds a Certificate of Authority to engage in the business of insurance issued by the Department. Beacon National Insurance Company is licensed to conduct the business of insurance in Texas pursuant to TEX. INS. CODE ANN. arts. 1.14 and 2.21. Lyndell Haigood is the President of Beacon National Insurance Company.

Petrolia Insurance Company is a domestic fire and casualty company which holds a Certificate of Authority to engage in the business of insurance issued by the Department. Beacon National Insurance Company is licensed to conduct the business of insurance in Texas pursuant to TEX. INS. CODE ANN. arts. 1.14 and 2.21. Lyndell Haigood is the President of Petrolia Insurance Company.

First Preferred Insurance Company is a domestic fire and casualty company which holds a Certificate of Authority to engage in the business of insurance issued by the Department. Beacon National Insurance Company is licensed to conduct the business of insurance in Texas pursuant to TEX. INS. CODE ANN. arts. 1.14 and 2.21. Lyndell Haigood is the President of First Preferred Insurance Company.

The allegations against Beacon National Insurance Company, Petrolia Insurance Company, and First Preferred Insurance Company include the following:

**Beacon National Insurance Company**

1. On or about March 8, 2001, Mary and Janet Gilbert of Coleman, Texas sustained roof damage during a hail storm to their home.
2. On March 8, 2001, Mary and Janet Gilbert had all risk homeowners coverage for their home, Texas Homeowners Policy – Form B, with Beacon National Insurance Company, policy number 7007887.
3. The March 8, 2001 damage to the Gilbert's home is considered to be a "covered peril" under the Beacon National Insurance Company's policy and damage resulting from the hail storm is covered by the Gilbert's policy with Beacon. The standard Texas Homeowners B Policy requires payment of the "cost to repair or replace that part of the building structure(s) damaged, with material of like kind and quality and for the same use and occupancy on the same premises" or "the amount actually and necessarily spent to repair or replace the damaged building structure(s)."
4. During early April 2001, Beacon National Insurance Company refused the Gilbert's claim to pay for the removal of the underlying wood shingles to provide a nailable surface to support

installation of the new shingles. The underlying wooden shingles were unsuitable surface for the new roof covering. Beacon only agreed to pay for costs of the new roof covering.

5. Over the years it has been found that, when a covered peril damages the top layer of a roof, it will often be impossible to properly replace only the damaged layer because the underlying layers, for a variety of possible reasons, will be inadequate to properly hold a new layer. When policyholders have submitted claims for replacement of such underlying layers to provide a nailable surface, Beacon has refused to do so.
6. On April 24, 2001, the Department received a complaint from homeowners Mary and Janet Gilbert regarding Beacon Insurance Company's practice of denying to remove or replace the underlying wooden shingles which would provide a nailable surface for the new shingles.
7. On or about January 31, 2000, the Department received a complaint from homeowner Robert W. Robinson regarding Beacon Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
8. On or about May 3, 2000, the Department received a complaint from homeowner Clyde Yancey regarding Beacon Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
9. On or about May 17, 2000, the Department received a complaint from homeowner Earnest Smith regarding Beacon Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
10. On or about May 18, 2000, the Department received a complaint from homeowner Irene Weatherall regarding Beacon Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
11. On or about October 5, 2000, the Department received a complaint from homeowner Daneille Blackburn regarding Beacon Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
12. The Department conducted an investigation and discovered that Beacon had failed to maintain a complete record of all complaints which it has received for a period of three years pursuant to TEX. INS. CODE ANN. art. 21.21-2 § 2(b)(6) and 28 TEX. ADMIN. CODE ANN. 21.2503.

**First Preferred Insurance Company**

13. On or about May 27, 2000, Robert and Sally Landback of Wichita Falls, Texas sustained hail damage to their residence.
14. On May 27, 2000, Robert and Sally Landback had all risk homeowners coverage for their home, Texas Homeowners Policy – Form B, with First Preferred Insurance Company, policy number THO-7008405.
15. The May 27, 2000 damage to the Landback’s home is considered to be a “covered peril” under the First Preferred Insurance Company’s policy and damage resulting from the hail storm is covered by the Landback’s policy with First Preferred. The standard Texas Homeowners B Policy requires payment of the “cost to repair or replace that part of the building structure(s) damaged, with material of like kind and quality and for the same use and occupancy on the same premises” or “the amount actually and necessarily spent to repair or replace the damaged building structure(s).”
16. During the months of August and September 2000, First Preferred Insurance Company refused the Landback’s claim to pay for the removal of the underlying wood shingles to provide a nailable surface to support installation of the new shingles. The underlying wooden shingles and decking were unsuitable surface for the new roof covering. First Preferred Insurance Company only agreed to pay for costs of the new roof covering.
17. On or about October 2, 2000, the Department received a complaint from homeowners Robert and Sally Landback regarding First Preferred Insurance Company’s practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
18. On or about March 2, 2000, Myrtle Wooten of Justin, Texas sustained hail damage to her residence.
19. On March 2, 2000, Ms. Wooten had all risk homeowners coverage for her home, Texas Homeowners Policy – Form B, with First Preferred Insurance Company, policy number 7006279.
20. The March 2, 2000 damage to Ms. Wooten’s home is considered to be a “covered peril” under the First Preferred Insurance Company’s policy and damage resulting from the hail storm is covered by Ms. Wooten’s policy with First Preferred. The standard Texas Homeowners B Policy requires payment of the “cost to repair or replace that part of the building structure(s) damaged, with material of like kind and quality and for the same use and occupancy on the same premises” or “the amount actually and necessarily spent to repair or replace the damaged building structure(s).”
21. During the months of March and April, 2000, First Preferred Insurance Company refused Ms. Wooten’s claim to pay for the removal of the underlying wood shingles to provide a

nailable surface to support installation of the new shingles. The underlying wooden shingles and decking were unsuitable surface for the new roof covering. First Preferred Insurance Company only agreed to pay for costs of the new roof covering.

22. On or about December 5, 2000, the Department received a complaint from homeowner Myrtle Wooten regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
23. On or about April 30, 2000, Donald and Glenda Burg of Dallas, Texas sustained hail damage to their residence.
24. On April 30, 2000, Donald and Glenda Burg had all risk homeowners coverage for their home, Texas Homeowners Policy – Form B, with First Preferred Insurance Company, policy number THO-550415.
25. The April 30, 2000 damage to the Landback's home is considered to be a "covered peril" under the First Preferred Insurance Company's policy and damage resulting from the hail storm is covered by the Burg's policy with First Preferred. The standard Texas Homeowners B Policy requires payment of the "cost to repair or replace that part of the building structure(s) damaged, with material of like kind and quality and for the same use and occupancy on the same premises" or "the amount actually and necessarily spent to repair or replace the damaged building structure(s)."
26. During the months of July and August, 2000, First Preferred Insurance Company refused the Burg's claim to pay for the removal of the underlying wood shingles to provide a nailable surface to support installation of the new shingles. The underlying wooden shingles and decking were unsuitable surface for the new roof covering. First Preferred Insurance Company only agreed to pay for costs of the new roof covering.
27. On or about August 24, 2000, the Department received a complaint from homeowners Donald and Glenda Burg regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
28. Over the years it has been found that, when a covered peril damages the top layer of a roof, it will often be impossible to properly replace only the damaged layer because the underlying layers, for a variety of possible reasons, will be inadequate to properly hold a new layer. When policyholders have submitted claims for replacement of such underlying layers to provide a nailable surface, First Preferred Insurance Company has refused to do so.
29. On or about October 22, 1999, the Department received a complaint from homeowner Annelisse Ceniza regarding First Preferred Insurance Company's practice of denying claims

to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.

30. On or about May 15, 2000, the Department received a complaint from homeowner Joseph C. Ventimiglia regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
31. On or about May 18, 2000, the Department received a complaint from homeowner Todd D. Stegall regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
32. On or about June 12, 2000, the Department received a complaint from homeowner Hunter N. Poteet regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
33. On or about June 14, 2000, the Department received a complaint from homeowner Donna Fields regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
34. On or about July 17, 2000, the Department received a complaint from homeowners Jeff and Carol Gant regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
35. On or about August 18, 2000, the Department received a complaint from homeowner Leonard W. Boren regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
36. On or about January 23, 2001, the Department received a complaint from homeowner H.L. Foster regarding First Preferred Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
37. The Department conducted an investigation and discovered that First Preferred Insurance Company had failed to maintain a complete record of all complaints which it has received for a period of three years pursuant to TEX. INS. CODE ANN. art. 21.21-2 § 2(b)(6) and 28 TEX. ADMIN. CODE ANN. 21.2503.

**Petrolia Insurance Company**

38. On or about June 16, 2000, the Department received a complaint from homeowner Margaret Scott regarding Petrolia Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
39. On or about July 3, 2000, the Department received a complaint from homeowners Herman and Mary Finley regarding Petrolia Insurance Company's practice of denying claims to remove or replace underlying shingles and decking in order to provide a nailable surface for the new shingles.
40. Over the years it has been found that, when a covered peril damages the top layer of a roof, it will often be impossible to properly replace only the damaged layer because the underlying layers, for a variety of possible reasons, will be inadequate to properly hold a new layer. When policyholders have submitted claims for replacement of such underlying layers to provide a nailable surface, Petrolia Insurance Company has refused to do so.
41. The Department conducted an investigation and discovered that Petrolia Insurance Company had failed to maintain a complete record of all complaints which it has received for a period of three years pursuant to TEX. INS. CODE ANN. art. 21.21-2 § 2(b)(6) and 28 TEX. ADMIN. CODE ANN. 21.2503.

The above conduct if proved, constitutes grounds for revocation of the Certificate of Authority held by Beacon National Insurance Company, Petrolia Insurance Company and First Preferred Insurance Company because:

1. Beacon National Insurance Company's, Petrolia Insurance Company's, and/or First Preferred Insurance Company's refusal to pay to install a nailable sub-surface where necessary to properly replace and install roof surfaces damaged by covered perils violated the language of the Texas Homeowners Policy- Form B, in violation of the unfair claim settlement provisions of TEX. INS. CODE ANN. arts. 21.21. § 4(10)(a)(ii) and 21.21-2 § 2(b)(4);
2. Beacon National Insurance Company, Petrolia Insurance Company, and/or First Preferred Insurance Company have been in violation of, and have failed to comply with, a specific provision of the Texas Insurance Code or a duly promulgated rule or regulation of the Commissioner, as contemplated in TEX. INS. CODE ANN. § 82.051 by violating TEX. INS. CODE ANN. art. 21.21-2 § 2(b)(6) and 28 TEX. ADMIN. CODE ANN. 21.2503.

If one or more of the above allegations is found to be true, the Commissioner of Insurance could enter an order revoking or suspending Beacon National Insurance Company's Certificate of Authority or order Beacon National Insurance Company to pay an administrative penalty, or in the alternative could enter an order imposing any other sanction provided by law pursuant to TEX. INS. CODE ANN. §§ 82.051 – 82.055 and 84.001 *et seq.* The Department may be seeking an administrative penalty in this action pursuant to TEX. INS. CODE ANN. § 84.022.

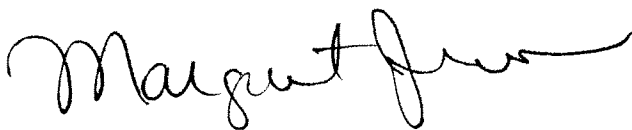


If one or more of the above allegations is found to be true, the Commissioner of Insurance could enter an order revoking or suspending Petrolia Insurance Company's Certificate of Authority or order Petrolia Insurance Company to pay an administrative penalty, or in the alternative could enter an order imposing any other sanction provided by law pursuant to TEX. INS. CODE ANN. §§ 82.051 – 82.055 and 84.001 *et seq.* The Department may be seeking an administrative penalty in this action pursuant to TEX. INS. CODE ANN. § 84.022.

If one or more of the above allegations is found to be true, the Commissioner of Insurance could enter an order revoking or suspending First Preferred Insurance Company's Certificate of Authority or order First Preferred Insurance Company to pay an administrative penalty, or in the alternative could enter an order imposing any other sanction provided by law pursuant to TEX. INS. CODE ANN. §§ 82.051 – 82.055 and 84.001 *et seq.* The Department may be seeking an administrative penalty pursuant to TEX. INS. CODE ANN. § 84.022.

Beacon National Insurance Company, Petrolia Insurance Company, and First Preferred Insurance Company have the right to appear at this hearing and to be represented by and through an attorney or any other duly authorized representative. Should there be any questions concerning this matter, the undersigned may be contacted by mail by addressing correspondence to Margaret Jonon, Texas Department of Insurance, MC 110-1A, P.O. Box 149104, Austin, Texas 78714-9104, or by telephone at (512) 305-7239.

Sincerely,



Margaret Jonon  
Staff Attorney, Enforcement Section  
Legal and Compliance Division MC 110-1A  
Texas Department of Insurance  
333 Guadalupe  
Austin, Texas 78701  
Telephone (512) 305-7239  
Facsimile (512) 475-1772  
SBN: 00789801

cc: Catherine Reyer, Section Chief, Enforcement MC-110-1A  
Eric Moorad, Team Leader, Licensing MC-110-1A