

**NOTICE TO NEW JERSEY POLICYHOLDERS AND CLAIMANTS
OF STATE CAPITAL INSURANCE COMPANY**

The Superior Court of North Carolina, Wake County, entered an Order of Liquidation and Injunctive Relief dated June 21, 2004 (the "Liquidation Order"): (a) declaring State Capital Insurance Company ("State Capital") insolvent within the meaning of the North Carolina state insurance law codified at N.C. Gen. Stat. § 58-30-10(13); (b) placing State Capital in liquidation; and (c) appointing the Commissioner of Insurance for the State of North Carolina as Liquidator (the "Liquidator") for the purposes of liquidation under the provisions of N.C. Gen. Stat. Chapter 58, Article 30.

State Capital is a North Carolina stock property and casualty insurance company. The Liquidation Order provides that State Capital has been under the administrative supervision of the North Carolina Department of Insurance since December 20, 2001 and has no current in-force insurance policies.

The Liquidation Order stays any and all pending actions against State Capital as of June 21, 2004. The Liquidation Order places an injunction against actions by all creditors including persons, firms and corporations receiving actual notices of the Court's Order until further order is given from the Court.

Pursuant to N.J.S.A. 17:30A-1, et seq., the Guaranty Association hereby notifies all New Jersey insureds of State Capital, all New Jersey residents having claims against such insureds, and any other interested parties of: (a) the determination of insolvency with respect to State Capital; (b) entry of the Liquidation Order; (c) notice of the injunction against all actions as set forth in the Liquidation Order; and (d) a summary of their rights under the Guaranty Association Act as set forth below.

The Guaranty Association is a private, non-profit, unincorporated legal entity operating to minimize financial loss to certain claimants and certain policyholders when certain insurance companies become insolvent. The Guaranty Association is obligated to the extent of the "covered claims," as defined in the Guaranty Association Act, against an insolvent insurer incurred, in the case of private passenger automobile insurance, prior to or after the determination of insolvency, but before the policy expiration date or the date upon which the insured replaces the policy or causes its cancellation, or in the case of insurance other than private passenger automobile insurance, covered claims against such insolvent insurer incurred prior to or 90 days after the determination of insolvency, or before the policy expiration date, if less than 90 days after said determination, or before the insured replaces the policy or causes its cancellation, if he does so within 90 days of the determination, but such obligation shall include only that amount of each covered claim which is less than \$300,000 and subject to any applicable deductible contained in the policy, except that the \$300,000 limitation shall not apply to a covered claim arising out of insurance coverage mandated by Section 4 of P.L. 1972, c.70 (C. 39:6A-4).

IMPORTANT NOTES

THE PROTECTION, IF ANY, AFFORDED BY THE GUARANTY ASSOCIATION ACT TO POLICYHOLDERS AND CLAIMANTS MAY DIFFER FROM COVERAGES SET FORTH IN THE POLICIES ISSUED BY THE INSOLVENT INSURER. THE OBLIGATION OF THE GUARANTY ASSOCIATION SHALL BE LIMITED TO AND SHALL INCLUDE ONLY THAT AMOUNT OF A COVERED CLAIM WHICH IS EQUAL TO OR LESS THAN \$300,000. NOTE, HOWEVER, THAT IF A CLAIM ARISES OUT OF INSURANCE COVERAGE MANDATED BY N.J.S.A. 39:6A-4 (NO FAULT PERSONAL INJURY PROTECTION AUTOMOBILE COVERAGE) THE GUARANTY ASSOCIATION'S OBLIGATION SHALL BE LIMITED TO AND SHALL INCLUDE ONLY THAT PORTION OF THE CLAIM WHICH IS LESS THAN \$75,000. BENEFITS PAID IN EXCESS OF SUCH AMOUNT SHALL BE RECOVERABLE BY THE GUARANTY ASSOCIATION FROM THE UNSATISFIED CLAIM AND JUDGMENT FUND PURSUANT TO N.J.S.A. 17:30A-8(a)(1).

In addition to the foregoing limitations, each covered claim is subject to any applicable deductible contained in the policy.

A "covered claim" is defined by the Guaranty Association Act to mean an unpaid claim, including one of unearned premiums, which arises out of and is within the coverage, and not in excess of the applicable limits of any insurance policy to which the Act applies, issued by an insolvent insurer; and

1. the claimant or insured is a resident of New Jersey at the time of the insured event, or
2. the property from which the claim arises is permanently located in New Jersey.

"Covered claims" do not include lines of insurance excluded from coverage by the terms of the Guaranty Association Act, nor any association, as subrogation recoveries or otherwise. The lines of insurance excluded from the Guaranty Association Act are: life insurance, accident and health insurance, workers' compensation insurance, title insurance, annuities, surety bonds, credit insurance, mortgage guaranty insurance, municipal bond coverage, fidelity insurance, investment return assurance, ocean marine insurance and pet health insurance. Surplus lines coverages are not protected under the terms of the Guaranty Association Act.

A "covered claim" shall also not include amounts for interest on unliquidated claims, punitive damages unless covered by the policy, counsel fees for prosecuting suits for claims against the Guaranty Association, and assessments or charges for failure of the insolvent insurer to have expeditiously settled claims.

A "covered claim" shall also not include a claim filed with the Guaranty Association after any Bar Date set by the Court for the filing of claims against the Liquidator of State Capital, unless the claimant demonstrates unusual hardship and the Commissioner approves of treatment of the claim as a "covered claim".

Any persons having a "covered claim" which may be recovered from more than one insurance guaranty association or its equivalent shall seek recovery first from the association at the place of residence of the insured at the time of the insured event, except that if there is a first party claim for damage to property with a permanent location, he shall seek recovery first from the association at the location of the property. Any recovery under the Guaranty Association Act shall be reduced by the amount of recovery from any other guaranty association or its equivalent. However, if recovery is denied or deferred by the Guaranty Association, a person may seek recovery from any other insurance guaranty association or its equivalent from which recovery may be legally sought.

Finally, the Guaranty Association requires exhaustion of coverage under solvent insurers' policies before statutory benefits may be sought from the Guaranty Association under the policy of an insolvent insurer such as State Capital. Any amount otherwise payable on a "covered claim" shall be reduced by the amount of recovery under any solvent insurer's policy.

For the full provisions of the Guaranty Association Act, reference should be made to N.J.S.A. 17:30A-1 et seq.

All inquiries and communications regarding any covered claim arising under a policy of insurance issued by State Capital Insurance Company should be directed promptly to the New Jersey Property-Liability Insurance Guaranty Association's Claim Office, located at 59-63 Mine Brook Road, Bernardsville, New Jersey 07924 (telephone: (908) 953-9533)).

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