

REPORT OF EXAMINATION  
OF THE  
REAL ADVANTAGE TITLE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2021

*Insurance Commissioner*

A handwritten signature in blue ink, appearing to read "Debra", is positioned to the right of the text "Insurance Commissioner".

Filed on June 21, 2023

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Los Angeles, California  
May 12, 2023

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

REAL ADVANTAGE TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1551 North Tustin Avenue, Suite 300, Santa Ana, California 92705.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. This examination covers the period from January 1, 2017 through December 31, 2021. The previous examination was conducted as of December 31, 2016.

The examination was conducted in accordance with the National Association of Insurance Commissioner's *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting

Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

### SUMMARY OF SIGNIFICANT FINDINGS

California Insurance Code (CIC) Section 923 requires every insurer to file an annual or quarterly statement using statement blanks and instructions for the appropriate year adopted by the National Association of Insurance Commissioner (NAIC). The statements shall be completed in conformity with the Accounting Practices and Procedures (AP&P) Manual adopted by the NAIC. Various discrepancies were noted while examining the filed 2021 annual statement. It was determined that the underlying data supporting the filed annual statement existed and was valid. However, several reported balances were presented using Generally Accepted Accounting Principles (GAAP) instead of Statutory Accounting Principles (SAP), which is required by the AP&P Manual. The supporting information provided was inadequate to determine the accuracy of the reclassifications and adjustments of the reported balances made through multiple calendar year filings. Therefore, it is determined that the annual statement was not prepared in conformity with the statutory requirements.

Pursuant to CIC Section 734, at the request of the California Department of Insurance (CDI) and to better evaluate the solvency of the Company, the CDI will engage independent experts to rewrite, post, and balance the Company's books and records for the years in question, to comply with the CIC Section 923.

## COMPANY HISTORY

The Company was incorporated in the state of Ohio on January 24, 1985, as Olympic Title Insurance Company. On June 22, 2011, Orange Coast Title Company, a California domiciled underwritten title company, purchased the Company's immediate parent, Olympic Holding Company, LLC, a Delaware limited liability company. On August 25, 2011, the Company's name was changed to Real Advantage Title Insurance Company. On February 19, 2014, the Company re-domesticated from the state of Ohio to the state of California.

### Capitalization

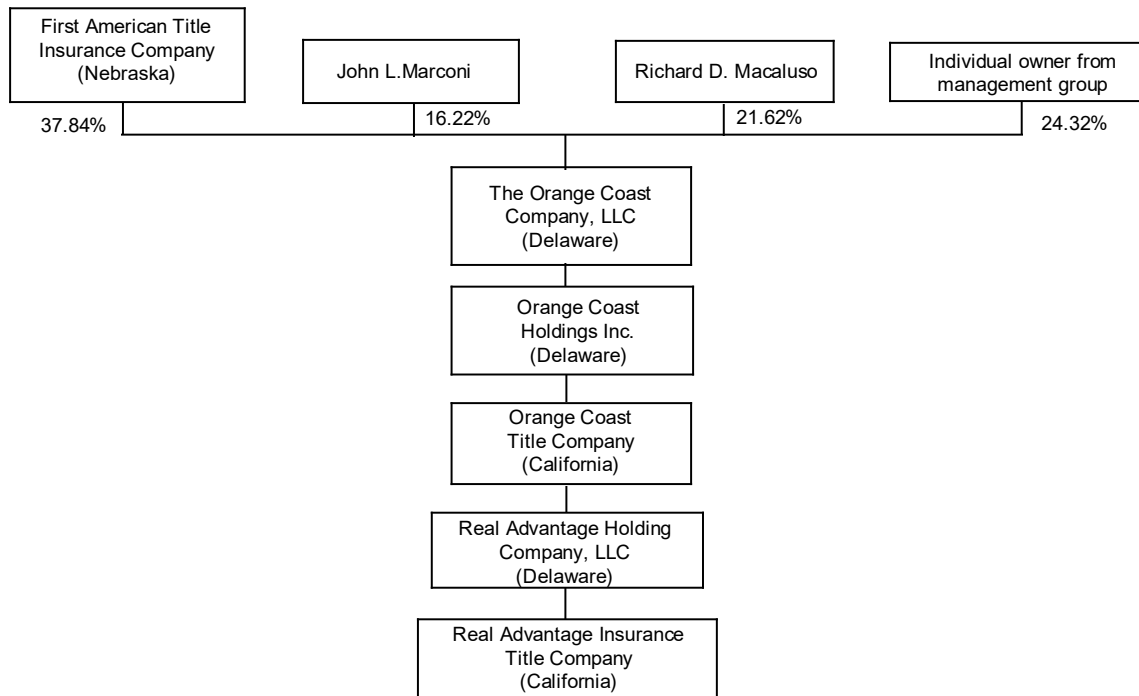
In June 2014, after re-domesticating to California, the Company was authorized to issue 300,000 shares of common stock with a par value of \$50 per share.

In September 2018, the par value of the Company's common capital stock was increased from \$50 to \$100 per share in connection with the Company's expansion application filed with the Washington Office of Insurance Commissioner (WIC). WIC requires a title insurance company application to maintain a minimum of \$2 million in the capital. The increase in par value raised the Company's common capital stock from \$1,100,000 to \$2,200,000. The certificate of amendment to the article of incorporation to increase the par value of its common stock to \$100 was filed with the California Secretary of State on September 21, 2018. As of December 31, 2021, there were 22,000 shares issued and outstanding.

In 2018 and 2019, the Company received cash capital contribution, in total of \$1,000,000 from the immediate Parent, Orange Coast Title Company.

MANAGEMENT AND CONTROL

The Company is wholly-owned by Real Advantage Holding Company, LLC, a California limited liability company, which is ultimately owned by The Orange Coast Company, LLC (TOCC), a Delaware corporation. The ultimate controlling parties of TOCC are First American Title Insurance Company (FATIC), John L. Marconi, and a group of individuals (the Management Group). The following abridged organizational chart shows the Company’s relationship within the holding company system as of December 31, 2021. All ownership is 100% unless otherwise stated.



The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving on December 31, 2021:

## Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
William D. Burding, Jr. Santa Ana, California	Executive Vice President and General Counsel Orange Coast Title Company
Valsa Jacob Santa Ana, California	Executive Vice President and Controller Orange Coast Title Company
Richard D. Macaluso Santa Ana, California	President Orange Coast Title Company
John L. Marconi Santa Ana, California	Chief Executive Officer and Chairman of the Board Orange Coast Title Company
Michael J. Marconi Santa Ana, California	Chief Operating Officer and Secretary Orange Coast Title Company

## Principal Officers

<u>Name</u>	<u>Title</u>
Richard D. Macaluso	President
Michael J. Marconi	Chief Operating Officer and Secretary
William D. Burding, Jr.	Executive Vice President and General Counsel
Valsa Jacob	Executive Vice President and Controller

## Disclaimer of Affiliation

California Insurance Code (CIC) Section 1215(d) states control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, more than 10% of the voting securities of any other person. This presumption may be rebutted by a showing that control does not exist in fact pursuant to the filing of a disclaimer of affiliation in accordance with subdivision (l) of Section 1215.4. A review of the Company's relationship within the holding company system disclosed that First American Title Insurance Company (FATIC) owned a 37.84% ownership interest in



the Company, Mr. Richard D. Macaluso owned 21.62%, Mr. John Marconi owned 16.22%, Mr. Michael J. Marconi owned 10.81%, and no other individual under the management group owned more than 10%. Pursuant to the above definition, FATIC is considered the ultimate control entity without a disclaimer of affiliation filed with California Department of Insurance (CDI). However, the Company's holding company filing indicates Mr. John L. Marconi is the ultimate controlling person for the Company.

Pursuant to CIC Section 1215.4(l), "a disclaimer of affiliation may be filed by an insurer or any member of an insurance holding company system. The disclaimer shall fully disclose all material relationships and bases for affiliation between the person and the insurer and the basis for disclaiming an affiliation. After a disclaimer has been filed, the insurer is relieved of any duty to register or report under this section that may arise out of the insurer's relationship with the disclaimed person unless and until the commissioner disallows the disclaimer." It is recommended that the Company and its shareholder, FATIC, should file the disclaimer of affiliation with the CDI if FATIC is not considered as the ultimate controlling entity and the Company should not be included under the Annual Registration Statement filing of FATIC.

On May 31, 2023, the Company filed the disclaimer of affiliation with the CDI, and it is currently under review.

### Management Agreements

Amended and Restated Administrative Services Agreement: Effective January 9, 2014, the Company entered into an Amended and Restated Administrative Services Agreement (Agreement) with its parent, Orange Coast Title Company (OCTC). Under the terms of this Agreement, OCTC provides the use of equipment, facilities, and services, including accounting, auditing, underwriting, claims management, regulatory, financial, litigation management, fraud investigation, communications, management reporting, administering payroll and benefits, data processing, actuarial, and information technology. For compensation, the actual cost of these services is charged to the Company and settled monthly. The CDI approved this Agreement on February 19, 2014, in connection with the Company's application for licensure and re-domestication. For years 2017, 2018, 2019,

2020, and 2021, the total fees paid under the Agreement were \$520,447, \$599,361, \$829,483, \$1,099,479, and \$1,184,827, respectively.

Tax Sharing Agreement: Effective April 3, 2014, the Company entered into a Tax Sharing Agreement (TSA) with OCTC and other affiliates. Under the terms of the TSA, participants in the group file a consolidated federal income tax return. OCTC is responsible for filing and making federal income tax payments on behalf of the participants. Allocation of taxes is based on separate return calculations with tax balance payable or receivable being settled in amounts as if separate returns were filed. Tax payments or refunds are settled no later than 30 days after the filing date of the consolidated federal income tax return. The CDI approved this agreement on April 3, 2014. For years 2017, 2018, 2019, 2020, and 2021, the total federal taxes paid or (recovered) under the TSA were \$714,312, \$190,789, \$474,953, \$1,057,646, and \$821,477, respectively.

Amended Issuing Agency Agreement: Effective December 14, 2016, the Company entered into an Amended Issuing Agency Agreement (Agency Agreement) with OCTC. Under the terms of this Agency Agreement, OCTC is appointed as an issuing agent to issue title insurance policies on behalf of the Company. For compensation, the Company pays a fee of 88% of the title insurance premium for businesses of centralized lenders and preferred client refinance, and 85% of the title insurance premium of others to OCTC. The CDI approved this amended agency agreement in a letter dated December 14, 2016. For the years 2017, 2018, 2019, 2020, and 2021, the total fees paid under the agreement were \$5,632,578, \$5,229,385, \$9,212,63, \$25,421,193, and \$17,619,620, respectively.

### TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in the following thirty states as of December 31, 2021:

Alabama	Indiana	Minnesota	Nevada	Oklahoma	Utah
Arizona	Kansas	Mississippi	New Jersey	South Carolina	Virginia
California	Louisiana	Missouri	North Carolina	South Dakota	Washington
Colorado	Maryland	Montana	North Dakota	Tennessee	West Virginia
Georgia	Michigan	Nebraska	Ohio	Texas	Wisconsin

The Company writes only title insurance business. The majority of its business is written by affiliated underwritten title agencies. In 2021, the Company created an Outside Agency Division (OAD) to develop a team of outside agencies to market its title business. There were no premiums produced by the OAD in 2021.

Direct premiums written for 2021 were \$117,454,757. Of this amount, 64.3%, or \$74,079,605, was written in California, 17.6%, or \$20,235,911, was written in Nevada, and 7.1%, or \$8,191,324, was written in Utah. These three states represent 89% of the total direct premiums written nationwide.

### REINSURANCE

#### Assumed

The Company does not assume reinsurance.

#### Ceded

The Company is a party to a Reinstatement Premium Protection Excess of Loss Reinsurance Agreement with various Lloyds' syndicates, as of December 31, 2021. The Company's retention is \$1,000,000 with a loss limit of \$20,000,000.

### ACCOUNTS AND RECORDS

This examination experienced some delays in obtaining supporting documentation for various information reported in the Company's Annual Statement. This includes routine examination requests such as examination questionnaires, confirmation information, and detailed supporting records. It is recommended that the Company maintain adequate documentation to support all information reported in its financial statements. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Company's financial statements to individual records. The Company

is also reminded that all of its books and records must be made available for examination pursuant to California Insurance Code (CIC) Section 734.

### Corporate Records

CIC Section 735 states that the Company must inform the board members of the receipt of the examination report, both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner, and enter that fact in the board minutes. A review of the board minutes disclosed that the prior filed Report of Examination was not presented to the board of directors of the Company. It is recommended that the Company implement procedures in its board meeting to ensure adherence to the CIC Section 735.

### Annual Statement Filing

A review was made of the Company's Annual Statement. It was noted that the Annual Statement was, in many instances, incorrectly and inadequately prepared. Various schedules were missing in their entirety and others were missing information to reconcile between the balance sheet and supporting schedules and exhibits.

CIC Section 923 requires every insurer to file an annual or quarterly statement using statement blanks and instructions for the appropriate year adopted by the National Association of Insurance Commissioner (NAIC). The statements shall be completed in conformity with the statutory accounting principles prescribed in the Accounting Practices and Procedures (AP&P) Manual adopted by the NAIC. As the result of all of the above discrepancies, it is determined that the Annual Statement were not prepared in conformity with the requirement and the examiner was unable to perform a complete review and validation on the reported information. It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filings, to comply with the CIC Section 923, and NAIC Annual Statement Instructions, and AP&P Manual.

Upon notification by the CDI during the examination, the Company has acted to remedy the presentation of the 2022 filed annual statement. Although the Company made corrections in its 2022 filed annual statement no verification of the detail supporting the corrections was performed during the examination.

#### Certified Public Accountant Annual Audited Report

California Code of Regulations (CCR) § 2309.4 to 2309.7, provides guidance on the filing and content requirement for the Annual Audited Financial Report (Audited Report), designation, and qualifications of the Independent Certified Public Accountant utilized by each insurer to meet annual filing requirements. It was noted that the various financial items reported on the filed 2021 Audited Report differed from 2021 filed Annual Statement. The Notes to Financial Statements did not disclose any difference noted or reconciliation of the such difference as required by CCR 2309.5(f). As a result of noted discrepancies, the 2021 Audited report and related audited work papers were not accepted for the purpose of the examination. It is also determined that the Company is not in compliance with CCR 2309.5(f). It is recommended that the Company take necessary steps to ensure the annual audit performed by the appointed Certified Public Accountant and the Annual Audited Financial Report meets all regulatory requirements.

#### Premium Tax Returns

During the review of the premium tax return filings under the examination years, various discrepancies were noted on the reported direct premium written between the filings and schedule T of the Annual Statements. The discrepancies resulted in an understatement of the taxable income by approximately \$1 million, and \$24,400 in premium tax. This understatement is considered immaterial and does not impact the Company's financial condition. However, it is recommended that the Company taking necessary steps to ensure the accuracy and consistency of the reporting on its premium tax return filing and Annual Statement.

## FINANCIAL STATEMENTS

The following financial statements represented the statutory financial statements filed by the Company with the California Department of Insurance and the financial condition of the Company for the period ending December 31, 2021, without attestation by the California Department of Insurance.

As a result of aforementioned discrepancies noted under the “Accounts and Records” section, the filed statutory financial statements were not validated with adequate audit trails. The accompanying comments on financial statements items reflect the discrepancies noted while performing the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2021

Statement of Financial Condition  
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 15,537,940	\$	\$ 15,537,940	(1)
Common stocks	5,551,321		5,551,321	(1)
Cash and short-term investments	13,486,466		13,486,466	(1)
Other invested assets	132,000		132,000	(2)
Receivable for securities	43,373		43,373	
Investment income due and accrued	(35,120)		(35,120)	(2)
Premiums and agents' balances in course of collection	182,034		182,034	
Net deferred tax asset	1,388,403		1,388,403	(3)
Furniture and equipment	14,611	14,611	0	
Aggregate write-ins for other than invested assets	661,752	12,663	649,089	(4)
Total assets	<u>\$ 36,962,780</u>	<u>\$ 27,274</u>	<u>\$ 36,935,506</u>	
 <u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Known claims reserve			\$ 2,437,724	(5)
Statutory premium reserve			13,932,561	(6)
Supplemental reserve			3,513,464	(7)
Taxes, Licenses, and Fees			0	(8)
Current federal and foreign income taxes			999,399	(9)
Payable to parent, subsidiaries and affiliates			1,241,279	
Aggregate write-ins for liabilities			<u>1,398,545</u>	(8)
Total liabilities			23,522,972	
Common capital stock		\$ 2,200,000		
Gross paid-in and contributed surplus		3,431,260		
Unassigned funds (surplus)		<u>7,781,274</u>		
Surplus as regards policyholders			<u>13,412,534</u>	
Total liabilities, surplus, and other funds			<u>\$ 36,935,506</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2021

Statement of Income

<u>Underwriting Income</u>		<u>Notes</u>
Operating income:		
Title insurance premiums earned	\$ 110,562,801	(10)
Other title fees and service charges	<u>2,222,345</u>	(10)
Total operating income		<u>112,785,146</u>
Expenses:		
Losses and loss adjustment expenses incurred	\$ 5,418,690	
Other operating expenses incurred	<u>106,629,566</u>	
Total operating expenses		<u>112,048,256</u>
Net operating gain		736,890
 <u>Investment Income</u>		
Investment income earned		222,953
Net realized capital gains (losses)		<u>175,819</u>
Net investment gain or (loss)		398,772
Net income before all other federal income taxes		1,135,662
Federal income taxes incurred		<u>897,505</u>
Net income		<u>\$ 238,157</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ <u>11,951,109</u>	
Net income	\$ 238,157		
Change in net unrealized capital gains	638,165		
Change in net deferred income taxes	654,165		
Change in supplemental reserves	(2,096,071)		
Aggregate write-ins for gains and losses in surplus	<u>2,020,047</u>		(11)
Change in surplus as regards policyholders for the year		<u>1,461,062</u>	
Surplus as regards policyholders, December 31, 2021		<u>\$ 13,412,171</u>	(11)



Reconciliation of Surplus as Regards to Policyholders  
from December 31, 2016, through December 31, 2021

Surplus as regards policyholders, December 31, 2016					\$ 5,562,406
	Gain in Surplus	Loss in Surplus			
	<u>                    </u>	<u>                    </u>			
Net income	\$ 5,007,890	\$			
Change in net unrealized capital gains	985,700				
Change in net deferred income tax	946,237				
Change in non-admitted assets			11,835		
Change in supplemental reserves			2,642,578		
Surplus Adjustments					
Paid-in	1,000,000				
Aggregate write-ins for gains and losses in surplus	<u>2,564,714</u>				
Total gains and losses	<u>\$ 10,504,541</u>	<u>\$ 2,654,413</u>			
Net increase in surplus as regards policyholders					<u>7,850,128</u>
Surplus as regards policyholders, December 31, 2021					<u>\$ 13,412,534</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Bonds
- (1) Common Stocks
- (1) Cash and Short-Term Investments

California Insurance Code (CIC) Sections 1104.9(c) and 1104.9(d) states invested securities other than statutory deposits shall be deposited in or with a qualified custodian, qualified depository, or qualified sub-custodian, as authorized by an approved agreement by the California Department of Insurance (CDI) between the insurer and qualified custodian. A review of the investment assets, included Bonds, Common Stocks, and Short-terms Investments, indicated that the securities are held with and maintained by a brokerage firm, and in addition, there is no approved agreement in place between the parties. Pursuant to CIC Section 1104.9(a)(1), a brokerage firm is not a qualified custodian. It is determined that the Company is not in compliance with CIC Sections 1104.9(c) and 1104.9(d).

It is recommended that the Company immediately transfer all of its securities currently held with its brokerage firm to a qualified custodian. It is also recommended that the Company enter into a custodial agreement with the qualified custodian that meets the CIC Sections 1104.9(c) and 1104.9(d) requirements and submit the agreement to the CDI for approval. Upon notified by the CDI on the custodian requirement, the Company has been working diligently with the CDI to ensure the compliance of required CIC sections 1104.9(c) and 1104.9(d).

- (2) Receivables for Securities
- (2) Investment Income Due and Accrued

Receivable for Securities and Investment Income Due and Accrued reported on the Asset page of the Annual Statement were determined unreconcilable from various related exhibits and schedules from the 2021 Annual Statement. Due to missing information from various exhibits and schedules, it was determined that the recalculation of the two assets accounts could not be performed and a determination of the accuracy of the reported balance was not possible. It is recommended that the Company carefully review the NAIC

Annual Statement Instructions and Accounting Principles and Procedures (AP&P) Manual and implement procedures to ensure that accurate and adequate information is provided in all future filing to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual. The Company acknowledged the errors made and provided the detail of the securities in its 2022 annual statement.

(3) Net Deferred Tax Assets

The net deferred tax assets of \$1,388,403 on the Asset page of the 2021 annual statement did not reconcile with the balance from the trial balance of \$817,901. The difference between the reported balance and the trial balance overstated the admitted assets by \$570,502. However, the calculation of the net deferred tax assets was not provided on the annual statement or during the examination, and the accuracy of the balance could not be verified. It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual. The Company acknowledged the errors made and agreed to correct its reporting and detail of the calculation in the Notes to the Financial Statement in its 2022 annual statement.

(4) Aggregate Write-ins for Other Than Invested Assets

The Statements of Statutory Accounting Principles (SSAP) No. 4 states the assets having the economic value other than those which can be used to fulfill policyholder obligations or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet, and are therefore, considered non-admitted. The Company reported a mortgage loan receivable and a notes receivable under the line item aggregate write-ins for other than invested assets for the total of \$660,000. Both receivables were uncollateralized and there was no evidence of repayment activity since their issuance, and they cannot be used to fulfill current or future policyholder obligations when needed. As a result, the related balance of \$660,000 should be non-admitted. It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual and implement procedures to ensure

that accurate and adequate information is provided in all future filing to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual. The Company acknowledged the errors made and agreed to non-admitted the balance in its 2022 annual statement.

(5) Known Claims Reserve

A California Department of Insurance Casualty Actuary evaluated the Company's loss and loss adjustment expense reserves, including its known claims reserve and supplemental reserves, as of December 31, 2021. Based on the Casualty Actuary's analysis, the Company's loss and loss adjustment expenses as of December 31, 2021, were found to be reasonably stated and have been accepted for purposes of this examination.

(6) Statutory Premium Reserve

Pursuant to CIC Section 12382.2, a title insurer must add to and set aside in its Statutory Premium Reserve (SPR) an amount equal to 4.5% of the sum of the following items: direct premiums written and other income as set forth in Schedule T, less premiums for reinsurance ceded during the year. A review of the Company's SPR calculation as of December 31, 2021 was performed. It was noted that the Company did not include other income nor subtract ceded reinsurance premiums in the calculation. Although the SPR as calculated by the Company did not materially differ from the calculation based on the CIC requirements, therefore, no recommended adjustment is made. However, it is recommended that the Company recalculate its SPR and comply with CIC Section 12382.2 in all of its future financial statements.

(7) Supplemental Reserve

SSAP No. 57, Paragraph 10 states that if the actuarially determined liability exceeds the sum of the known claims reserve (KCR) and SPR, a supplement reserve shall be established equal to the difference between these sums. For the calculation recorded in 2021 Annual Statement, the Operations and Investment Exhibit Part 2B, the Company recorded the difference of \$3,513,464 between KCR and SPR as supplemental reserve.

As the KCR and SPR are determined reasonable, hence, the supplement reserve is determined to be reasonable for the purpose of the examination.

(8) Taxes, Licenses, and Fees

(8) Aggregate Write-Ins for Liabilities

Per NAIC Annual Statement Instructions, taxes, licenses, and fees should include incurred but unpaid investment and underwriting taxes, licenses and fees. The Company reported \$835,074 premium tax payable under the line item, instead of in the line item for taxes, licenses, and fees. It is recommended that a reclassification entry be made to the reported balance, which decreased the line item balance by \$835,074 and increased Taxes, Licenses, and Fees by the same amount. The reclassification entry has no impact on the Surplus as Regards Contract Holders. It is recommended that the Company carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the California Insurance Code (CIC) Section 923, NAIC Annual Statement Instructions, and AP&P Manual. The Company acknowledged the errors made and agreed to correct the reporting in its 2022 annual statement.

(9) Current Federal and Foreign Income Taxes

The current federal and foreign income taxes of \$999,399 on the Liability page of the 2021 annual statement did not reconcile with the balance from the trial balance of \$923,373. The difference between the reported balance and the trial balance overstated the liabilities by \$76,026. However, the support for the tax provision calculation was not provided during the examination, and the accuracy of the balance could not be verified. It is recommended that the Company carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, and NAIC Annual Statement Instructions, AP&P Manual. The Company acknowledged the errors made and agreed to make corrections on its 2022 annual statement.

- (10) Title Insurance Premium Earned
- (10) Other Title Fees and Service Charges

The Company incorrectly included \$565,480 of excess risk premiums earned as other title fees and service charges, instead of premium earned, on the Statement of Income. It is recommended that a reclassification entry be made to the reported balance, which decreased the line item balance by \$565,480 and increased Title Insurance Premium Earned by the same amount. The reclassification entry has no impact on the net income or Surplus as Regards Policyholders. It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual. The Company acknowledged the errors made and agreed to correct the reporting in its 2022 annual statement.

- (11) Change in Supplemental Reserves
- (11) Aggregate Write-ins for Gains and Losses in Surplus
- (11) Surplus as Regards Policyholders

While the supplemental reserve was accepted for purposes of this examination, it was noted that the Company incorrectly reversed the entire change in supplemental reserves of \$2,096,071 as of year-end 2021 and reported it under Aggregate Write-in for Gains and Losses in Surplus on the Income Statement. As a result, it is determined that the Surplus as Regards Policyholders was overstated by the same amount. In addition, due to calculation error, there were immaterial discrepancies on the Surplus as Regards Policyholders between the Liabilities page and the Statement of Income in the 2021 annual statement. It is recommended that the Company carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual. The Company acknowledged the errors made and agreed to correct the reporting in its 2022 annual statement.

## SUBSEQUENT EVENTS

In connection with an internal reorganization within the Orange Coast Holding System during the first quarter of 2022, the membership interests of Real Advantage Holding, LLC (RAH), the immediate parent of the Company, were transferred from Orange Coast Title Company (OCTC) to The Orange Coast Company, LLC (TOCC). As a result, RAH is now a direct wholly-owned subsidiary of TOCC. The ultimate controlling parties of TOCC remain the same, which are First American Title Insurance Company, John L. Marconi, and a group of individuals from the management. The internal reorganization was approved by the California Department of Insurance letter dated February 2, 2022.

Subsequent to the internal reorganization, TOCC sold its ownership interests in OCTC, except for RAH, to Tempo Title, LLC, a Michigan limited liability company, d/b/a, Acrisure Real Estate Services. As a result of this sale, an affiliated relationship between the Company and OCTC no longer exists.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Management and Control – Disclaimer of Affiliation (Page 5): It is recommended that the Company and its shareholder, First American Title Insurance Company (FATIC), should file the disclaimer of affiliation with the California Department of Insurance if FATIC is not considered as the ultimate controlling entity and the Company should not be included under the Annual Registration Statement filing of FATIC.

Accounts and Records (Page 8): It is recommended that the Company maintain adequate documentation to support all information reported in its financial statements. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Company's financial statements to individual records. The Company is also reminded that all of its books and records must be made available for examination

pursuant to California Insurance Code (CIC) Section 734.

Accounts and Records – Corporate Records (Page 9): It is recommended that the Company implement procedures in its board meeting to ensure adherence to the CIC Section 735.

Accounts and Records – Annual Statement Filing (Page 9): It is recommended that the Companies carefully review the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions and Accounting Practices and Procedures (AP&P) Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Accounts and Records – Certified Public Accountant Annual Audited Report (Page 10): It is recommended that the Company take necessary steps to ensure the annual audit performed by the appointed Certified Public Accountant or the Annual Audited Financial Report meets the regulatory requirements.

Accounts and Records – Premium Tax Returns (Page 10): It is recommended that the Company taking necessary steps to ensure the accuracy and consistency of the reporting on its premium tax return filing and Annual Statement.

Comments on Financial Statement Items – Bonds and Common Stocks (Page 15): It is recommended that the Company immediately transfer all of its securities currently held with its brokerage firm to a qualified custodian. It is also recommended that the Company enter into a custodial agreement with the qualified custodian that meets the CIC Section 1104.9(c) and 1104.9(d) requirements and submit the agreement to the CDI for approval.

Comments on Financial Statement Items – Receivables for Securities, Investment Income Due and Accrued (Page 15): It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future



filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Comments on Financial Statement Items – Net Deferred Tax Assets (Page 16): It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Comments on Financial Statement Items – Aggregate Write-ins for Other Than Invested Assets (Page 16): It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Comments on Financial Statement Items – Statutory Premium Reserves (Page 17): It is recommended that the Company recalculate its Statutory Premium Reserves and comply with CIC Section 12382.2 in all of its future financial statements.

Comments on Financial Statement Items – Aggregate Write-ins for Liabilities, Taxes, Licenses, and Fees (Page 18): It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Comments on Financial Statement Items – Current Federal and Foreign Income Taxes (Page 18): It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Comments on Financial Statement Items – Other Title Fees and Service Charges, Title Insurance Premium Earned (Page 19): It is recommended that the Companies carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement

procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Comments on Financial Statement Items - Change in Supplemental Reserve, Aggregate Write-ins for Gains and Losses in Surplus, Surplus as Regards Policyholders (Page 19): It is recommended that the Company carefully review the NAIC Annual Statement Instructions and AP&P Manual, and implement procedures to ensure that accurate and adequate information is provided in all future filing, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and AP&P Manual.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

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Shelly Liu  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

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