

REPORT OF EXAMINATION  
OF THE  
FIDELITY NATIONAL HOME WARRANTY COMPANY  
AS OF  
DECEMBER 31, 2021

*Insurance Commissioner*

A handwritten signature in blue ink, appearing to be "D. DeLoe", is written over a light blue rectangular background.

Filed on January 9, 2023

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Los Angeles, California  
October 31, 2022

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIDELITY NATIONAL HOME WARRANTY COMPANY

(hereinafter also referred to as the Company). The Company's main administrative office and its primary location of its books and records is located at 1850 Gateway Blvd, Suite 220, Concord, California 94520.

SCOPE OF EXAMINATION

We have performed a full-scope examination of the Company that covers the period from January 1, 2016 through December 31, 2021. The previous examination was conducted as of December 31, 2015.

This examination report includes 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

Significant adjustments were made to the Company's financial statements as a result of the examination. The net impact of the examination adjustments resulted in a \$30,833,191 reduction in the Company's surplus as regards contract holders. The surplus as regards contract holders as reported by the Company as of December 31, 2021 was \$67,150,692. The Company's surplus as regards contract holders after the examination adjustment is \$36,317,501. The adjustments were due to (1) bonds being incorrectly reported at market values compared to amortized values of \$1,293,098; (2) an overstatement of home protection contract fees receivable by \$411,324; (3) non-admitting goodwill of \$7,544,046; and (4) removal of an incorrectly reported negative liability of \$21,584,723. Refer to the Comments on Financial Statement Items for further information regarding the examination adjustments.

## COMPANY HISTORY

The Company was incorporated under the laws of California on March 30, 1984 and commenced business on April 1, 1984 as Western Home Warranty. In 1996, Fidelity National Financial, Inc. (FNF), the ultimate parent and a Delaware corporation, purchased the Company as part of FNF's acquisition of National Alliance Marketing Group, Inc. (NAMG), the immediate parent. Through a series of mergers and acquisitions, the Company's name was changed to Fidelity National Home Warranty Company. In 2015, the Company acquired BPG Holdings, LLC. Group, and it was merged with and into the Company, with the Company being the surviving entity.

### Capitalization

The Company is authorized to issue 200,000 shares of common stock with a par value of \$1 per share. As of December 31, 2021, there were 1,598 shares outstanding. During 2016, a capital contribution of \$45,965,509 from the Company's ultimate parent was recorded for the purchase of BPG Holdings, LLC in February 2015.

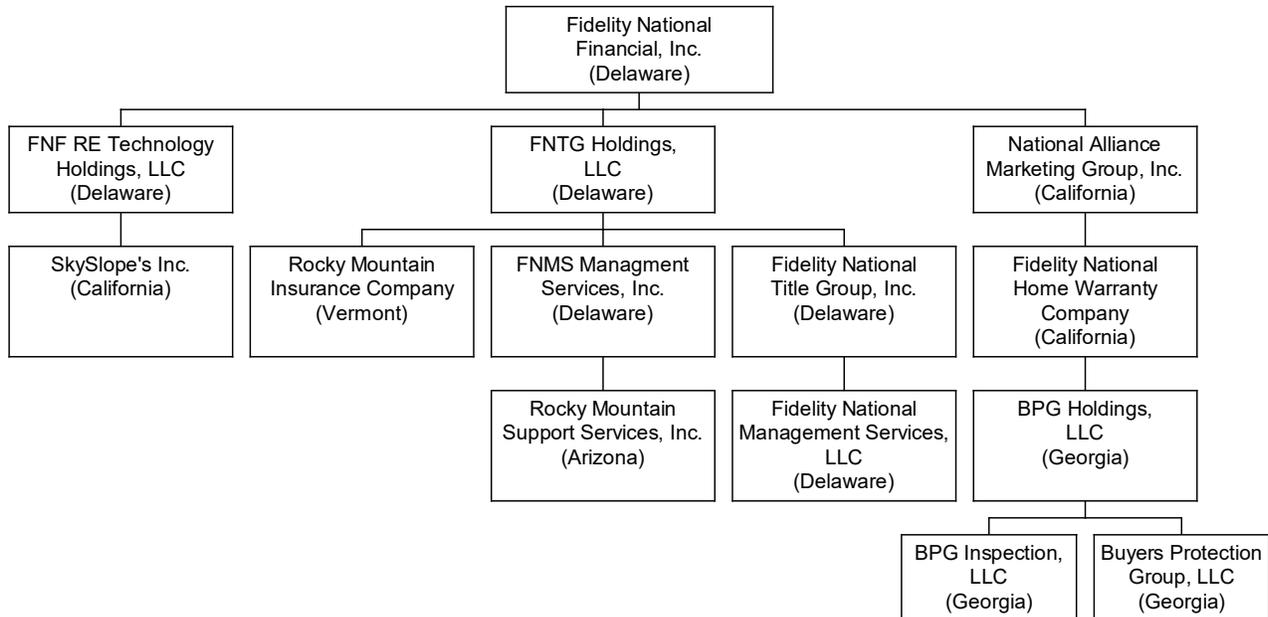
## Dividends

On December 22, 2016, the Company paid \$8,000,000 ordinary cash dividend to NAMG, the immediate parent. The California Department of Insurance (CDI) approved this transaction on December 8, 2016.

On December 22, 2017, the Company paid \$6,000,000 ordinary cash dividend to NAMG, the immediate parent. The CDI approved this transaction on December 8, 2017.

## MANAGEMENT AND CONTROL

The Company is wholly-owned by National Alliance Marketing Group, Inc., a California corporation, which is ultimately owned by Fidelity National Financial, Inc., a Delaware corporation. The following abridged organizational chart shows the Company's relationship within the holding company system as of December 31, 2021. All ownership is 100%.



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>
Roger S. Jewkes Las Vegas, Nevada	Chief Operating Officer Fidelity National Financial, Inc.
Marjorie Nemzura Chicago, Illinois	Vice President and Corporate Secretary Fidelity National Financial, Inc.
Anthony J. Park Jacksonville, Florida	Chief Financial Officer Fidelity National Financial, Inc.
Raymond R. Quirk Jacksonville, Florida	President and Chief Executive Officer Fidelity National Financial, Inc.
Karen E. Robertson Las Vegas, Nevada	Executive Vice President and Divisional Manager Fidelity National Financial, Inc.

## Principal Officers

<u>Name</u>	<u>Title</u>
Lorna H. Mello	President and Chief Executive Officer
James M. John	Executive Vice President and Regional Manager
Jason R. Manns	Executive Vice President and Chief Operating Officer
Sarju R. Patel	Executive Vice President and Chief Financial Officer
Paul I. Perez	Executive Vice President and Chief Compliance Officer
Tara B. Van Rooy	Executive Vice President and General Counsel

## Management Agreements

API and Data Transfer Agreement: Effective April 24, 2019, the Company entered into an API and Data Transfer Agreement (Agreement) with its affiliate, SkySlope's Inc. (SkySlope). Under the terms of this agreement, the Company has access to the SkySlope's platform/integration. The SkySlope's responsibilities are limited to facilitating the transmission of data between the Company and its agents/customers and maintaining the integrity of the data it transmits. For compensation, the SkySlope charges a fixed \$5.00 per transaction and settle monthly. The California Department of Insurance (CDI) approved this Agreement on April 23, 2019. For years 2019, 2020 and 2021, the total fees paid under the agreement were \$17,320, \$32,515, and \$41,730, respectively.

Master Service Agreement: Effective May 10, 2017, the Company entered into a Master Services Agreement (MSA) with its ultimate parent, Fidelity National Financial, Inc. (FNF), and its various affiliates, including Fidelity National Management Services, LLC (FNMS), FNMS Management Services, Inc. (FNMS Management), and Rocky Mountain Support Services, Inc. (RMSS). Under the terms of the MSA, FNMS and FNMS Management provide administrative support and personnel services, including administering payroll, allocating salaries, and hiring and terminating personnel. RMSS provides general corporate services, including legal, communications, advertising, regulatory, financial, general administrative, benefits administration, management reporting, marketing, and information technology. For compensation, the actual cost of these services is charged monthly to the Company. The CDI approved the MSA agreement on April 18, 2018. For years 2016, 2017, 2018, 2019, 2020 and 2021, the total fees paid under the MSA were \$29,319,876, \$30,253,777, \$29,385,354, \$29,090,628, \$36,919,218, and \$32,606,245, respectively.

Tax Sharing Agreement: Effective January 22, 2021, the Company entered into a Tax Sharing Agreement (TSA) with FNF, and other affiliates and subsidiaries. Under the terms of the TSA, participants in the group file a consolidated federal income tax return. FNF 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 credits are settled no later than 30 days after the filing of federal income tax return. On February 25, 2021, the CDI approved this agreement. Effective November 3, 2021, the Company filed an amendment to TSA to add a newly formed entity, Rocky Mountain Insurance Company, as an additional subsidiary to the TSA with all terms and provisions of the TSA remaining unchanged. The CDI approved the agreement on October 28, 2021. For years 2016, 2017, 2018, 2019, 2020 and 2021, the total federal taxes paid or (recovered) under the TSA were \$786,397, \$3,261,631, (\$725,686), (\$1,116,700), \$1,507,852, and (\$4,707,909), respectively.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed and writes only home protection contracts in the following states as of December 31, 2021: Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, Nevada, New Mexico, North Carolina, Ohio, Oregon, Texas, Utah, and Washington.

The Company issues home protection contracts for single family homes, condominiums, town homes, mobile homes and duplex, triplex and fourplex units for a duration of twelve to sixty months. During the contract period, the Company is contracted to pay for repair or replacement of covered systems and/or appliances that experience a failure due to normal use. The Company also offers optional buyer's coverage for an additional fee, which includes additional items not covered in the standard plan.

The Company utilizes both internal and external sales representatives to market the home warranty contracts through real estate agents.

Direct contract fees written for 2021 were \$176,381,304. Of this amount, 62% or \$109,342,734 was written in California, 14% or \$24,951,553 in Texas, and 10% or \$17,270,631 in Arizona. The top three states represent 86% of total contracts written nationwide.

## ACCOUNTS AND RECORDS

### Annual Statement Filing

The Annual Statement was erroneously prepared with unreconciled items between schedules, unreported trial balance items, and insufficient detail to support the reported balances. Due to the incomplete records, it was determined that the Company does not comply with the California Department of Insurance (CDI) Annual Statement Blank Filing Forms. As a result of this finding, various financial adjustments and reclassifications of the trial balance accounts were made to the 2021 Annual Statement. It is recommended that:

1. The Company shall follow the Annual Statement Blank Filing Forms provided by the CDI when preparing the Annual Statement. The reported balances should reconcile to the trial balance. Any adjusting entry shall be documented to reflect any difference between the trial balance and Annual Statement.
2. The Company shall maintain adequate documentation to support all information reported in its financial statements. The documentation shall be prepared in sufficient detail to allow for a full and complete audit trail from the Company's financial statements to individual records.
3. The Company shall consider engaging appropriate experts to review and assist the Company in preparing and filing the financial statements and related reporting to ensure compliance with CDI Annual Statement Blank Filing Forms.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on financial statements items reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

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 Contract Holders from December 31, 2015 through December 31, 2021

Analysis of Changes to Surplus as of December 31, 2021

Summary of Reclassifications

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	\$ 101,070,047	\$ 1,293,098	\$ 99,776,949	(1)
Preferred Stocks	7,094,300		7,094,300	
Cash, cash equivalents, and short-term investments	5,462,065		5,462,065	
Other Invested Assets – Subsidiary Investment	37,353,346		37,353,346	
Home Protection Contract Fees Receivable	4,242,191	411,324	3,830,867	(2)
Electronic Data Processing Equipment	457,398	457,398	0	
Interest, Dividends and Real Estate Income Due and Accrued	639,834		639,834	
Prepaid Claims Expenses:				
Other receivables	13,221,083	13,221,083	0	(3)
Goodwill	7,544,046	7,544,046	0	(4)
Other Assets:				
Equipment, Furniture and Supplies	7,906,242	7,906,242	0	
<b>Total assets</b>	<b><u>\$ 184,533,154</u></b>	<b><u>\$ 30,375,793</u></b>	<b><u>\$ 154,157,361</u></b>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Claims Adjusted & Unpaid or in Process of Adjustment			\$ 15,162,018	(5)
Claims Service Expenses			932,539	
Other Expenses (Excluding Taxes, Licenses & Fees)			4,155,733	
Taxes, Licenses and Fees (Excluding Federal Income Taxes)			574,315	
Current Federal Income Taxes (Excluding Deferred Taxes)			165,781	
Unearned Home Protection Contract Fees			83,835,337	(6)
Payable to Parent, Subsidiaries and Affiliates			10,428,397	(7)
All Other Liabilities			2,585,740	(8)
<b>Total liabilities</b>			<b>117,839,860</b>	
Common Capital Stock		\$ 1,598		
Gross Paid In and Contributed Surplus		64,134,102		
Unassigned Funds (Surplus)		<u>(27,818,199)</u>		
Surplus as Regards Contract Holders			<u>36,317,501</u>	
<b>Total Liabilities, Surplus, and Other Funds</b>			<b><u>\$ 154,157,361</u></b>	

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

Statement of Income

Underwriting Income

Home protection contract fees earned		\$ 185,457,426
Deductions:		
Claims incurred	\$ 136,183,680	
Claims service expense incurred	9,687,717	
Other underwriting expenses incurred	<u>48,219,978</u>	
Total underwriting deductions		<u>194,091,375</u>
Net underwriting gain or (loss)		(8,633,949)

Investment Income

Net investment income earned	\$ 2,678,117	
Net realized capital gain or (loss)	<u>88,208</u>	
Net investment gain or (loss)		2,766,325

Other Income

Revenue allocation	\$ (900)	
Equity earnings in subsidiaries	1,702,401	
Asset disposal	<u>(2,047,191)</u>	
Total other income or (loss)		<u>(345,690)</u>
Net income before federal income taxes		(6,213,314)
Federal income taxes incurred		<u>(1,345,248)</u>
Net income or (loss)		<u>\$ (4,868,066)</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2020		\$ 74,654,960
Net income or (loss)	\$ (4,868,066)	
Change in unrealized gain/loss bonds	36,060,248	
Change in nonadmitted assets	(69,529,641)	
Change in surplus as regards contract holders for the year		<u>(38,337,459)</u>
Surplus as regards contract holders, December 31, 2021		<u>\$ 36,317,501</u>

Reconciliation of Surplus as Regards to Contract Holders  
from December 31, 2015 through December 31, 2021

Surplus as regards contract holders, December 31, 2015, per examination			\$ 86,680,633
	Gain in Surplus	Loss in Surplus	
Net income	\$	\$	8,346,439
Net unrealized capital gains or losses	35,329,779		
Change in nonadmitted assets		63,346,472	
Dividend to stockholders		14,000,000	
Total gains and losses	<u>\$ 35,329,779</u>	<u>\$ 85,692,911</u>	
Net decrease in surplus as regards contract holders			<u>(50,363,132)</u>
Surplus as regards contract holders, December 31, 2021, per examination			<u>\$ 36,317,501</u>

### Analysis of Changes to Surplus as of December 31, 2021

As a result of the examination, the following adjustments were made to the Company's reported balance sheet items. Bonds were decreased due to improper valuation method used. Home protection contract fees received were overstated. Goodwill was incorrectly reported on the Company's balance sheet. An adjustment as a result of unsupported journal entries was made to the All Other Liabilities account. All adjustments resulted in a net decrease of \$30,833,191 in the surplus as regards contract holders.

Surplus as regards contract holders, December 31, 2021, per Annual Statement		\$ 67,150,692
	<u>Decrease</u>	
<u>Assets</u>		
Bonds	\$ (1,293,098)	
Home protection contract fees receivable	(411,324)	
Goodwill	(7,544,046)	
<u>Liabilities</u>		
All other liabilities	<u>(21,584,723)</u>	
Net Decrease		<u>(30,833,191)</u>
Surplus as regards contract holders, December 31, 2021, after adjustment		<u>\$ 36,317,501</u>

### Summary of Reclassifications as of December 31, 2021

As a result of the examination, the following reclassification was made that have no impact on surplus. The Company misclassified certain asset and liability accounts and incorrectly reported liability as negative balance under the asset account.

<u>Annual Statement Line Item</u>	<u>Balance per Annual Statement</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjusted Balance</u>
Other Assets – Subsidiary Investment	\$ 37,353,346	\$	\$ 37,353,346	\$ 0
Other Invested Assets	\$	\$ 37,353,346	\$	\$ 37,353,346
Prepaid Claims Expenses - Intercompany	\$ (10,428,397)	\$	\$(10,428,397)	\$ 0
Payable to Parent, Subsidiaries and Affiliates	\$	\$ 10,428,397	\$	\$ 10,428,397
All Other Liabilities	\$ 13,282,815	\$	\$ 13,282,815	\$ 0
Unearned Home Protection Contract Fees	\$ 70,552,522	\$ 13,282,815	\$	\$ 83,835,337

### COMMENTS ON FINANCIAL STATEMENT ITEMS

#### (1) Bonds

California Department of Insurance (CDI) Annual Statement Blank Filing Forms require that bonds shall be report at amortized value. As of December 31, 2021, the Company reported all of its bonds at fair market value for the total of \$101,845,598, however, the Company should report its bonds at amortized value of \$99,776,949. The examination adjustment represents the difference between the amortized and fair market values of the bonds. An examination adjustment of \$1,293,098 was made to the line item and the Surplus as Regards Contract Holders decreased by the same amount to reflect the adjustment made. It is recommended that the Company take necessary steps to ensure future compliance with the CDI Annual Statement Blank Filing Forms.

(2) Home Protection Contract Fees Receivable

The Company incorrectly included part of 2022 home protection contracts in its December 31, 2021 Home Protection Contract Fees Receivable. As a result of the error, the home protection contract fees receivable was overstated by \$411,324, or 17% of \$2,387,594 total receivable reported. An examination adjustment of \$411,324 was made to the line item. Surplus as Regards Contract Holders decreased by the same amount to reflect the adjustment made. It is recommended that the Company take necessary steps to ensure future compliance with CDI Annual Statement Blank Filing Forms.

(3) Other Receivables

The Company incorrectly reported \$13,221,083 of non-admitted portion of Other Receivable as admitted asset in its 2021 Annual Statement Assets page due to a clerical error. However, the overall calculation of the total assets did not impact the year-end Surplus as Regards Contract Holders. It is recommended that the Company implement procedures to ensure that the balances reported in the Annual Statements are accurate and reconcile with supporting schedules and exhibits.

(4) Goodwill

Since 2018, the Company reported a goodwill on its Annual Statement for the amount of \$7,544,046. The Company was unable to provide supporting document on the calculation of the goodwill or demonstrate the source of the goodwill. As a result, the California Department of Insurance non-admitted the goodwill of \$7,544,046, and the Surplus as Regards Contract Holders decreased by the same amount to reflect the adjustment made. It is recommended that the Company implement procedures to ensure that the balances reported in the Annual Statements are accurate and maintain adequate audit trail for all future reporting.

#### (5) Claims Adjusted & Unpaid or in Process of Adjustment

The Company does not utilize an actuary to determine reserves. Instead, the accounting department uses a model that incorporates the number of open work orders, invoices, average payment amounts, and certain assumptions, to estimate the reserve for claims adjusted and unpaid or in process of adjustment. On an annual basis, the Company performs a retrospective reserve analysis to ensure the reasonableness of the aforementioned reserving methodology. The examination team obtained and reviewed the 2021 year-end reserve analysis and deemed the reserving methodology to be adequate.

#### (6) Unearned Home Protection Contract Fees

California Insurance Code (CIC) Section 12753 states, “a home protection company shall maintain a reserve for unearned premiums in an amount no less than 40% of the aggregate premiums charged on its contract currently in force...Where the contract is for a period of more than 12 months, the reserve for unearned premiums for the period beyond 12 months shall be 100 percent of the pro rata portion”. The Company reported a balance of \$70,552,522 on the line item of the 2021 Annual Statement, which represents 40% of all contracts, regardless of the in-force period. The Company underwrites contracts longer than 12 months and the data provided contains \$3,458,619 with in-force period longer than 12 months. However, the calculation of the reserves did not take the in-force period into consideration. In addition, the Company used direct written contract fees as the basis for calculation, instead of in-force contract fees.

Furthermore, the Company recorded additional reserves above the 40% requirement per CIC section 12753 on all contracts under All Other Liability line item. As a result, the overall reserves on Unearned Home Protection Contract Fees were determined to be adequate and above the statutory requirement set by CIC Section 12753.

Although no examination adjustment was made to the line items, it is recommended that the Company calculate and report its unearned contract fee reserves in accordance with CIC Section 12753.

(7) Payable to Parent, Subsidiaries, and Affiliates

Under terms of the aforementioned Master Service Agreement, the ultimate parent, Fidelity National Financial, Inc. is providing various services and incurring overhead expenses on behalf of the Company. The incurred overhead expenses of \$10,428,397 were reported as a negative balance under Prepaid Claims Expenses: Intercompany, which offset the admitted assets instead as a liability item. A reclassification entry was made to the reported balance on Prepaid Claims Expenses: Intercompany, which decreased the admitted assets by \$10,428,397. The Payable to Parents, Subsidiaries, and Affiliates increased by the same amount. The reclassification entry has no impact on the Surplus as Regards Contract Holders. It is recommended that the Company report this payable as a liability and take necessary steps to ensure future compliance with CDI Annual Statement Blank Filing Forms.

(8) All Other Liability

The Company incorrectly reported \$21,584,723 of non-admitted assets as a negative liability while simultaneously booking this same amount as a reduction to its assets. The Company had no explanation to justify this negative liability balance. The impact of this negative liability balance was overstated the surplus by \$21,584,723. As a result, the California Dept of Insurance removed the negative liability balance of \$21,584,723, and the Surplus as Regards Contract Holders decreased by the same amount to reflect the adjustment made. It is recommended that the Company make the appropriate adjustments to this account and implement procedures to ensure that the balances reported in the Annual Statements are accurate for all future reporting.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records – Annual Statement Filing (Page 7): It is recommended that the Company shall follow the Annual Statement Blank Filing Forms provided by the California Department of Insurance when preparing the Annual Statement. The reported balance should reconcile to the trial balance. Any adjusting entries shall be documented to reflect any difference between the trial balance and Annual Statement.

It is also recommended that the Company shall maintain adequate documentation to support all information reported in its financial statements. The documentation shall be prepared in sufficient detail to allow for a full and complete audit trail from the Company's financial statements to individual records.

It is further recommended that the Company shall consider engaging appropriate experts to review and assist the Company in preparing and filing the financial statements and related reporting to ensure compliance with CDI Annual Statement Blank Filing Forms.

Comments on Financial Statement Items – Bonds (Page 13): It is recommended that the Company take necessary steps to ensure future compliance with the California Department of Insurance Annual Statement Blank Filing Forms.

Comments on Financial Statement Items – Home Protection Contract Fees Receivable (Page 14): It is recommended that the Company take necessary steps to ensure future compliance with the California Department of Insurance Annual Statement Blank Filing Forms.

Comments on Financial Statement Items – Other Receivables (Page 14): It is recommended that the Company implement procedures to ensure that the balances reported in the Annual Statements are accurate and reconcile with supporting schedules and exhibits.

Comments on Financial Statement Items – Goodwill (Page 14): It is recommended that the Company implement procedures to ensure that the balances reported in the Annual Statements are accurate and maintain adequate audit trail for all future reporting.

Comments on Financial Statement Items – Unearned Home Protection Contract Fees (Page 15): It is recommended that the Company calculate and report its unearned contract fee reserves in accordance with California Insurance Code Section 12753.

Comments on Financial Statement Items – Payable to Parent, Subsidiaries and Affiliates (Page 16): It is recommended that the Company report overhead expenses payable as a liability and take necessary steps to ensure future compliance with the California Dept of Insurance Annual Statement Blank Filing Forms.

Comments on Financial Statement Items – All Other Liabilities (Page 17): It is recommended that the Company make the appropriate adjustments to this account and implement procedures to ensure that the balances reported in the Annual Statements are accurate for all future reporting.

#### Previous Report of Examination

Management Agreements – Amended and Restated Tax Allocation Agreement (Page 15): It was recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4) for all tax sharing agreements. The Company has complied with this recommendation.

Management Agreements – Master Services Agreement (Page 15): It was recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4) for all management agreements. The Company has complied with this recommendation.

Management Agreements – Personal Property Lease Agreement (Page 15): It was recommended that the Company implement procedures to ensure future compliance with

CIC Section 1215.5(b)(4). The Company has complied with this recommendation. This agreement terminated effective as of April 15, 2020.

Accounts and Records – Financial Statement Filing (Page 15): It was recommended that the Company maintain working papers to support all its annual statement accounts and that the Company implement procedures to ensure compliance with the home warranty filing instructions. The Company remains noncompliant with this recommendation.

Accounts and Records – Unclaimed Property (Page 15): It was recommended that the Company set up a reserve for escheat liability and remit unclaimed property to the California State Controller's Office (SCO) in accordance with California Code of Civil Procedures, Title 10, Chapter 7, Article 3, Sections 1530 and 1532. It was also recommended that the Company retain copies of filings that are submitted to the SCO. The Company has complied with this recommendation.

Comments on Financial Statement Items – Federal Income Tax Recoverable (Page 15): It was recommended that the Company classify its federal income tax recoverable in accordance with the home warranty filing instructions. The Company has complied with this recommendation.

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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Ralph Oseguera, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California