REPORT OF EXAMINATION

OF THE

FIRST AMERICAN HOME BUYERS PROTECTION CORPORATION

AS OF

DECEMBER 31, 2010

Filed May 17, 2012

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Los Angeles, California
February 10, 2012

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIRST AMERICAN HOME BUYERS PROTECTION CORPORATION

(hereinafter also referred to as the Company) at the Company's statutory home office and main administrative office, located at 7833 Haskell Avenue, Van Nuys, California 91406.

SCOPE OF EXAMINATION

The previous examination was completed as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement Instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; statutory deposits; and sales and advertising.

SUBSEQUENT EVENTS

On February 16, 2011, the California Department of Insurance allowed the Company to classify the full net amount of its multi-pay fees receivable as a statutory admitted asset concurrent in its 2010 Annual Statement.

On December 27, 2011, the Company paid an ordinary cash dividend of $13,656,179 to its parent, First American Title Insurance Company.

COMPANY HISTORY

A portion of the Company's assets at the examination date consisted of unsecured loans made to its ultimate parent, First American Financial Corporation (FAFC). The Company obtained the California Department of Insurance (CDI) approval for each of these loans. The following schedule depicts the specific issuances and amounts outstanding at December 31, 2010:

Date issued	Interest Rate	Loan Amount	Principal Remaining	Maturity Date
12/14/2001	6.500%	$8,970,705	$4,643,066	12/15/2016
06/24/2002	4.875%	10,000,000	5,058,203	04/01/2017
01/31/2002	4.000%	10,000,000	5,575,745	02/01/2018
01/09/2004	4.250%	10,000,000	6,110,469	01/09/2019
03/12/2004	4.250%	30,000,000	18,810,308	03/12/2019
03/07/2005	4.000%	10,000,000	6,851,180	03/07/2020
	Totals	$78,970,705	$47,048,972	

On January 14, 2008, the Company declared an extraordinary dividend of $65 million to its parent, First American Title Insurance Company (FATICO). This extraordinary dividend was approved by

the CDI on February 7, 2008. The Company paid the dividend by transferring bonds with a market value of approximately $58.6 million on February 20, 2008, and paid the remaining balance of $6.4 million in cash on March 11, 2008. Waiver letters were obtained by the Company from the minority shareholders declining the receipt of the dividend.

During 2008, FATICO owned 92.1% of the Company's common stocks. The remaining 7.9% was owned by members of the management team. FATICO purchased the minority shareholders' stocks during the second quarter of 2008 and currently owns 100% of the Company.

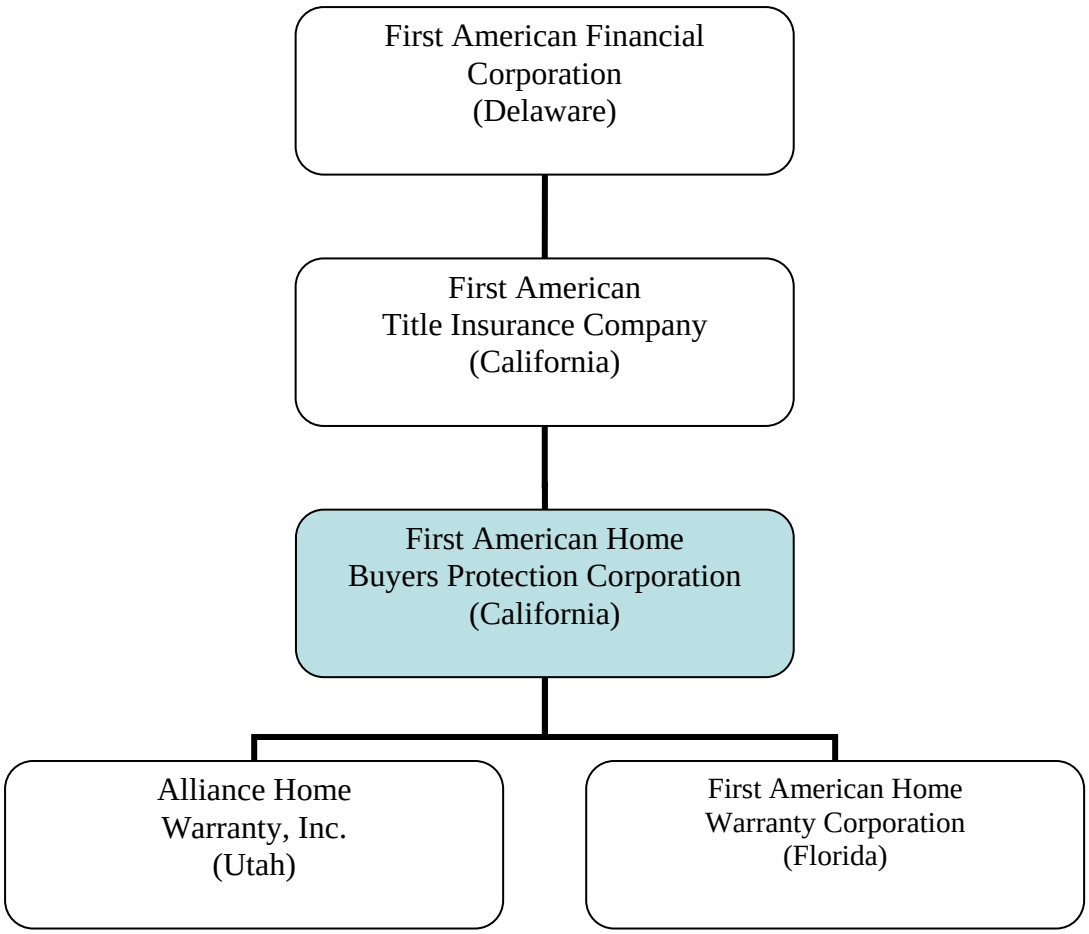
On December 31, 2009, the Company declared an ordinary cash dividend to FATICO in the amount of $6,882,452. This dividend was paid on January 29, 2010.

On May 18, 2010, the CDI approved the reorganization plan of the Company's former ultimate parent, The First American Corporation (FAC). Under the reorganization, FAC was reincorporated in the State of Delaware and assumed the name of CoreLogic, Inc., and FATICO became a wholly owned subsidiary of the new ultimate parent, First American Financial Corporation effective June 1, 2010.

On November 12, 2010, the Company declared an ordinary cash dividend to FATICO in the amount of $12,044,643. This dividend was paid on December 20, 2010.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The Company is a subsidiary of First American Title Insurance Company (FATICO). The following abridged organizational chart depicts the Company's relationship within the holding company system at December 31, 2010:



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 at December 31, 2010:

Directors

Name and Residence	Principal Business Affiliation
Larry M. Davidson Dana Point, California	Chief Executive Officer First American Home Buyers Protection Corporation
Dennis J. Gilmore Corona Del Mar, California	Chief Executive Officer First American Financial Corporation
Mark J. Harmsworth (*)	Executive Vice President, Finance

Laguna Niguel, California	First American Title Insurance Company
Parker S. Kennedy Orange, California	Executive Chairman First American Financial Corporation
Leslie M. Paton Thousand Oaks, California	Chief Financial Officer First American Home Buyers Protection Corporation
Jeffrey M. Powell Santa Rosa, California	Chief Operations Officer First American Home Buyers Protection Corporation
Jeffrey S. Robinson Lake Forest, California	Legal Counsel First American Financial Corporation

Principal Officers

Name	Title
Larry Davidson	Chief Executive Officer
Leslie Paton	Vice President and Chief Financial Officer
Jeffrey Powell	Vice President and Chief Operations Officer
Eric Gleason	Vice President and Chief Information officer
Debra Nagasawa	Vice President and Director of Compliance
Carla Roupe	Vice President and Controller
Patrick Hogan	Vice President and Renewal Sales Manager
Maggi Havas	Vice President and National Sales Director
Kathy Goldsmith	Vice President and Divisional Sales Manager
Myrna Stone	Vice President and Divisional Sales Manager
Susan Kelly	Vice President and Divisional Sales Manager
Harold Sterling	Vice President and Divisional Sales Manager

(*) Resigned effective July 13, 2011, replaced by Mark Seaton.

Management Agreements

Tax Allocation Agreement: The Company and its affiliates are parties to a Tax Allocation Agreement dated December 15, 1994 with the First American Corporation (FAC), its then ultimate parent. The preparation and filing of the consolidated federal income taxes is currently done by its new ultimate parent, First American Financial Corporation (FAFC). Allocation of federal income

taxes is based on separate return calculations with inter-company balances to be settled in the quarter subsequent to the filing of the consolidated return. The Company's portion of the federal income taxes paid for 2008, 2009, and 2010 were $491,252, $4,687,218, and $3,799,335, respectively. The Company stated that the Tax Allocation Agreement will be amended to replace FAC with FAFC. It is recommended that the Company file its amended tax allocation agreement with the California Department of Insurance (CDI) for approval in accordance with California Insurance Code Section 1215.5(b)(4). Subsequent to the examination date, the Company stated that it would coordinate with its ultimate parent, FAFC, regarding filing a revised tax allocation agreement.

Management Service Agreement: The Company entered into a management services agreement with its wholly-owned subsidiary, Alliance Home Warranty, Inc. (Alliance), effective July 30, 2004. Under the terms of this agreement, the Company provided Alliance with management services which include but were not limited to contract issuance, premium processing, claims processing, accounting and legal. The CDI approved this agreement on March 2, 2005. Fees received from Alliance for 2008, 2009, and 2010 were $935,283, $926,400, and $926,400, respectively.

TERRITORY AND PLAN OF OPERATION

In 2010, the Company wrote $160.6 million of direct premiums. Of the direct premiums written $58.1 million (36.2%) was written in California, $32.9 million (20.5%) was written in Texas, $12.2 million (7.6%) was written in Arizona, and $57.4 million (35.7%) was written in the remaining states.

As of December 31, 2010, the Company was licensed to transact home protection business in all states.

Effective October 1, 2008 the Company ceased writing new business in the following states, but retained its licenses:

Alabama	New Jersey
Connecticut	New York
Delaware	Oklahoma
Illinois	Rhode Island
Louisiana	Washington
Massachusetts	Wisconsin
Minnesota	

During 2010, the Company resumed writing business in the states of Oklahoma and Washington. In 2011, the Company resumed writing business in the states of Alabama, Delaware, and New Jersey.

REINSURANCE

The Company does not have reinsurance assumed or ceded.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards contract holders from December 31, 2007 through December 31, 2010

Statement of Financial Condition
as of December 31, 2010

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 87,602,180	$ 1,768,064	$ 85,834,116	
Real estate, less encumbrances	2,066,662		2,066,662	
Cash on hand and on deposit	13,664,374		13,664,374	
Other invested assets	5,925,000	5,925,000		
Home protection contract fees receivable:	36,412,390		36,412,390	
Receivables from affiliates	(189,684)	(266,884)	77,200	
Electronic data processing equipment	18,051,413	16,922,522	1,128,891	
Interest, dividends, and real estate income due and	955,602		955,602	
Deferred acquisition cost	5,675,520	5,675,520		
Equipment, furniture and supplies	1,524,938	1,524,938		
Prepaid expenses	677,785	677,785		
Leasehold improvements	182,290	182,290		
Notes receivable	47,048,972		47,048,972	
Total assets	$ 219,597,442	$ 32,409,235	$ 187,188,207	
Liabilities, Surplus and Other Funds				
Claims adjusted and unpaid or in process of adjustment			$ 7,912,449	(1)
Claims services expenses			175,000	
Other expenses			8,936,357	
Taxes, licenses and fees			683,293	
Federal income taxes			181,302	
Unearned home protection contract fees			71,978,548	
Deposit held escheat			467,708	
Intercompany payables			266,884	
Rebates			(33,930)	
Total liabilities			90,567,611	
Common capital stock		$ 1,947,700		
Gross paid-in and contributed surplus		1,480,500		
Unassigned funds (surplus)		93,192,396		
Surplus as regards contract holders			96,620,596	
Total liabilities, surplus and other funds			$ 187,188,207	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

Statement of Income

Underwriting Income		
Home protection contract fees earned		$ 160,886,521
Deductions:		
Claims incurred	$ 82,827,037	
Claims service expense incurred	15,949,922	
Other underwriting expenses incurred	45,294,530	
Total deductions		144,071,489
Net underwriting gain		16,815,032
Investment Income		
Net investment income earned	$ 2,918,792	
Net investment gain		2,918,792
Net income, before federal income taxes		19,733,824
Federal income taxes incurred		6,077,645
Net income		$ 13,656,179

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2009		$ 66,973,624
Net income	$ 13,656,179	
Dividends to stockholders	(12,044,643)	
Change in non-admitted assets	28,035,436	
Change in surplus as regards contract holders		29,646,972
Surplus as regards contract holders, December 31, 2010		$ 96,620,596

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2007 through December 31, 2010

	Gain in Surplus	Loss in Surplus	
Surplus as regards contract holders, December 31, 2007 per Examination			$ 136,502,557
Net income	$ 31,232,301	$	
Change in non-admitted assets	12,812,833		
Dividend to stockholder		83,927,095	
Total gains and losses	$ 44,045,134	$ 83,927,095	
Net decrease in surplus as regards contract holders			(39,881,961)
Surplus as regards contract holders, December 31, 2010, per Examination			$ 96,620,596

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Adjusted and Unpaid or in Process of Adjustment

Claims related to home warranty contracts are generally paid within a short period of time after the repairs are made. The Company does not utilize an actuary to determine reserves. Instead, the accounting department uses a model that incorporates the number of open work order invoices, average payment amounts, and certain assumptions, to estimate the reserve for claims adjusted and unpaid or in process of adjustment. The examiner performed a six-month retrospective loss development review which indicated that the Company's unpaid claims reserve was adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreement – Tax Allocation Agreement (Page 6): It is recommended that the Company file its amended tax allocation agreement with the California Department of Insurance for approval in accordance with California Insurance Code Section 1215.5(b)(4).

Previous Report of Examination

Management and Control – Management Agreements – Tax Allocation Agreement (Page 5): At December 31, 2007, the Company had not received its federal income tax overpayments back from its then ultimate parent, First American Corporation (FAC), for several years. Settlements of those tax years were made on March 20, 2009. It was recommended that the Company and FAC settle future intercompany tax balances on a timely basis. The Company has complied.

Claims Adjusted and Unpaid or in Process of Adjustment (Page 12): It was recommended that the Company periodically perform internal retrospective reviews to assess the accuracy of the assumptions used in their claims reserving model. The Company has complied.

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,

_____/S/_____
Aram Shahenian, CFE
Examiner-In-Charge
Senior Insurance Examiner-Supervisor
Department of Insurance
State of California