

REPORT OF EXAMINATION
OF THE
UNITED CAPITAL TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed June 8, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION.....	1
MANAGEMENT AND CONTROL:	2
Inter-Company Agreements.....	5
Agency Agreements.....	5
TERRITORY AND PLAN OF OPERATION	6
REINSURANCE:	6
Assumed.....	6
Ceded	7
FINANCIAL STATEMENTS:.....	7
Statement of Financial Condition as of December 31, 2004	8
Underwriting and Investment Exhibit for the Year Ended December 31, 2004.....	9
Reconciliation of Surplus as Regards Policyholders from December 31, 2001 through December 31, 2004.....	10
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	11
Known Claim Reserves.....	11
SUMMARY OF COMMENTS AND RECOMMENDATIONS:.....	11
Current Report of Examination.....	11
Previous Report of Examination.....	11
ACKNOWLEDGEMENT	12

Los Angeles, California
April 14, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

UNITED CAPITAL TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 3250 Wilshire Boulevard
18th Floor, Los Angeles, California 90010.

SCOPE OF EXAMINATION

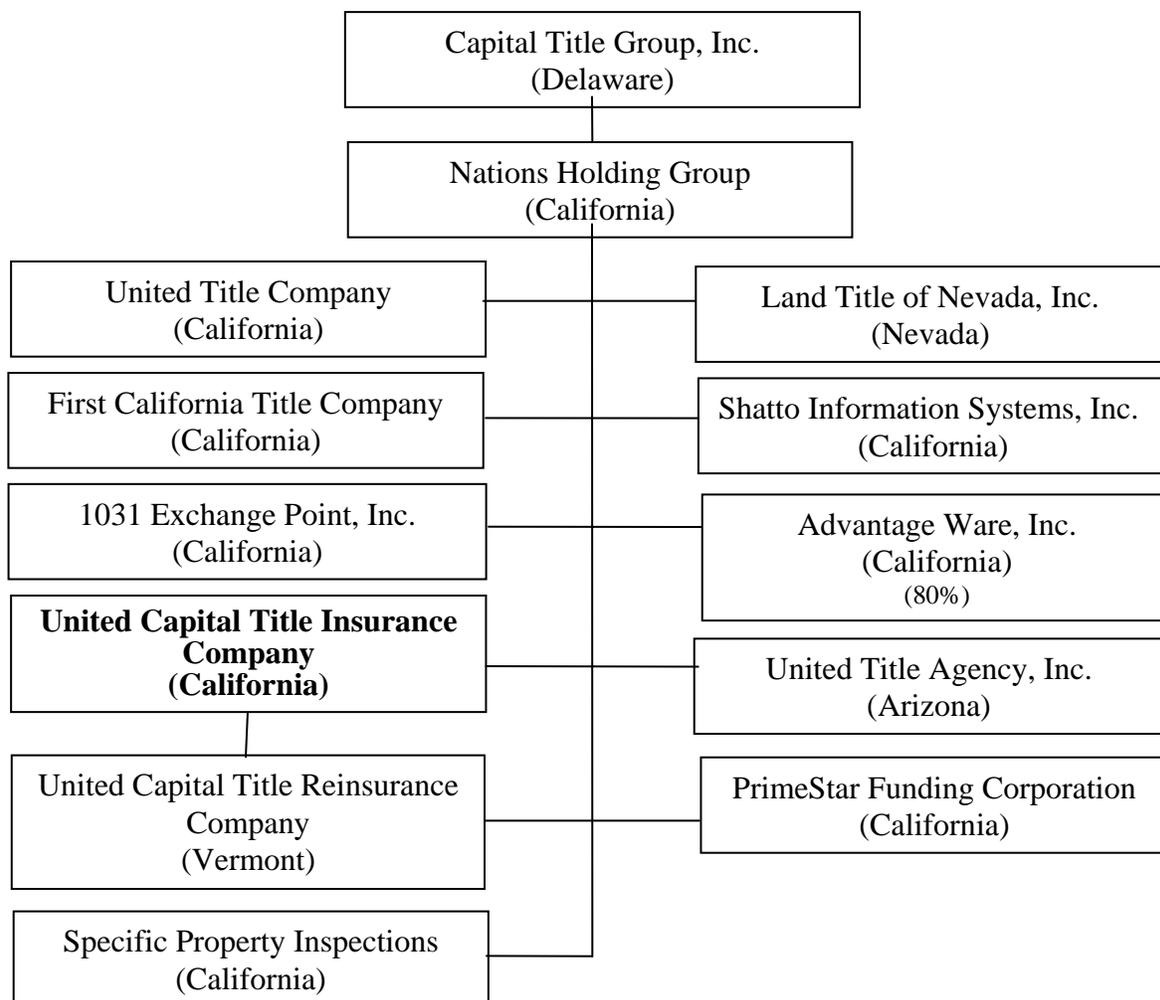
The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

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: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system and is a wholly-owned subsidiary of Nations Holding Group, a California corporation. The ultimate parent is Capital Title Group, Inc. (CTG), a Delaware corporation based in Arizona.

The following is an organizational chart depicting the relationship of the Company within the holding company system as of December 31, 2004:



Management of the Company is vested in a four-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 are as follows:

Directors

Name and Residence

Principal Business Affiliation

Jerome M. Smolar
Northridge, California

President and Chief Executive Officer
United Capital Title Insurance Company

Kenneth E. Dzien

Vice President, Secretary and General

Name and Residence

Principal Business Affiliation

Thousand Oaks, California

Counsel
United Capital Title Insurance Company

Henri J. Van Hirtum
Santa Barbara, California

Chairman Emeritus
Nations Holding Group

Donald R. Head
Scottsdale, Arizona

Chairman, President and Chief Executive
Officer
Capital Title Group, Inc.

Principal Officers

Name

Title

Jerome M. Smolar

President and Chief Executive Officer

Kenneth E. Dzien

Secretary

Mark C. Walker

Treasurer and Chief Financial Officer

Gorden E. Gates

Vice-President

James M. Thomas

Vice-President

Richard D. Nelson

Vice-President

Alexander Levy

Vice-President

Harold E. Grossman

Vice-President

Richard Evans

Vice-President

Ron Evans

Vice-President

Larry Smith

Vice-President

Inter-Company Agreements

Cost Sharing Agreement: The Company is a party to a cost-sharing agreement with its immediate parent company, Nations Holding Group (NHG), and each of NHG's subsidiaries. Under the terms of the agreement, the Company is entitled to receive or use services of its affiliated entities including, but not limited to, employees, offices, systems, equipment and facilities. The allocated costs assigned to the Company are not to exceed the actual costs incurred. It is recommended that the cost sharing agreement be submitted to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5.

Consolidated Federal Income Tax Liability Allocation Agreement: Pursuant to the consolidated federal income tax liability allocation agreement entered into as of January 1, 2002, the Company is included in the consolidated federal tax return of Capital Title Group (CTG) and its affiliated companies. Each member company's return is computed on a separate return basis. The amount due to or from CTG for any income tax liability or benefit is to be settled within 30 days after filing a consolidated return or receipt of a refund. It is recommended that the tax allocation agreement be submitted to the CDI for approval pursuant to CIC Section 1215.5.

Agency Agreements

On October 31, 1997, the Company entered into agency agreements with its affiliates, United Title Company and First California Title Company (collectively referred herein as UTC). This agreement is also referred to as an underwriting agreement. Under the terms of the agency agreements, UTC is authorized to issue title insurance commitments, binders and policies on behalf of the Company in the following counties: Los Angeles, Orange, San Bernardino, San Diego, Ventura, Santa Barbara, Alameda, San Francisco, Kern and Contra Costa. As compensation for providing the agency services to the Company, UTC retains eighty eight percent (88%) of the title premiums written and remits the remaining twelve-percent (12%) to the Company.

On January 2, 2003, the Company entered into an agency agreement with Land Title of Nevada, Inc., a Nevada corporation. Under the terms of this agreement, the agent retains 90% of title premiums written and remits the remaining 10% to the Company.

On July 2, 2002, the Company entered into agency agreements with Capital Title Agency, an Arizona corporation. The agent retains 91% of the first \$450,000 of title premiums written and 92% thereafter and remits the remaining 9% and 8% to the Company.

On June 19, 2002, the Company entered into an agency agreement with New Century Title Company, a California corporation. Under the terms of this agreement, the agent retains 91% of title premiums written and remits the remaining 9% to the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed to transact title insurance business in California, Arizona, Nevada, New York and Texas with applications pending for Certificates of Authority in Pennsylvania and Florida. Subsequent to the examination date, the Company received a license to transact business in Pennsylvania on July 5, 2005 and Florida on November 10, 2005. The Company currently has a pending application for a Certificate of Authority in New Jersey.

During 2004, the Company wrote \$1,849,540 of title business on a direct basis. Under its agency agreements, the total title premiums written were \$126,682,381.

REINSURANCE

Assumed

The Company does not assume reinsurance.

Ceded

The Company entered into an excess of loss reinsurance agreement with Chicago Title Insurance Company on September 25, 1997. Under the terms of this agreement, the Company retains the first \$500,000 of the fixed policy liability at the policy issue date, and in the case of Trustee Sale Guarantees (TSG), the retention is \$750,000.

As of January 28, 2005, the Company increased its retention to \$2,000,000 for policies and TSGs. As of the examination date, the Company has not incurred any losses in excess of its retention.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 21,057,864	\$	\$ 21,057,864	
Stocks:				
Preferred stocks	860,800		860,800	
Common stocks	3,808,809		3,808,809	
Cash and short-term investments	6,205,235		6,205,235	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	1,250,068		1,250,068	
Net deferred tax asset	1,308,745	1,038,304	270,441	
Investment income due and accrued	183,581		183,581	
Equipment, furniture and supplies	219,760	219,760		
Aggregate write-ins for other than invested assets	<u>1,671,685</u>	<u>131,538</u>	<u>1,540,147</u>	
Total assets	<u>\$ 36,566,547</u>	<u>\$ 1,389,602</u>	<u>\$ 35,176,945</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Known claims reserve			\$ 1,194,326	(1)
Statutory premium reserve			16,149,811	
Other expenses			487,106	
Taxes, licenses and fees			68,598	
Federal and foreign income taxes			<u>523,991</u>	
Total liabilities			18,423,832	
Common capital stock		\$ 1,000,000		
Gross paid-in and contributed surplus		3,000,000		
Unassigned funds (surplus)		<u>12,753,113</u>		
Surplus as regards policyholders			<u>16,753,113</u>	
Total liabilities, surplus and other funds			<u>\$ 35,176,945</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income

Premiums earned	\$ 123,793,537	
Escrow and Settlement Services	<u>173,378</u>	
Total underwriting income		\$123,966,915
Deductions:		
Losses incurred and loss expensed incurred	\$ 1,236,143	
Other underwriting expenses incurred	<u>118,050,845</u>	
Total underwriting deductions		<u>119,286,988</u>
Net underwriting income		4,679,927

Investment Income

Net investment income earned	\$ 861,906	
Net realized capital gains	<u>200,057</u>	
Net investment gain		<u>1,061,963</u>
Net income before federal income taxes		5,741,890
Federal income taxes incurred		<u>2,350,149</u>
Net income		<u>\$ 3,391,741</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		\$ 13,433,150
Net income	\$ 3,391,741	
Net unrealized capital loss	(127,132)	
Change in net deferred income tax	465,753	
Change in nonadmitted assets	<u>(410,399)</u>	
Change in surplus as regards policyholders		<u>3,319,963</u>
Surplus as regards policyholders, December 31, 2004		<u>\$ 16,753,113</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Surplus as regards policyholders, December 31, 2001, per Examination			\$ 6,368,898
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$10,157,613		
Net unrealized capital gain	150,739		
Change in net deferred income tax	1,005,505		
Change in nonadmitted assets		<u>929,642</u>	
Totals	<u>\$ 11,313,857</u>	<u>\$ 929,642</u>	
Increase in surplus as regards policyholders for the examination period			<u>10,384,215</u>
Surplus as regards policyholders, December 31, 2004, per Examination			<u>\$ 16,753,113</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Known Claim Reserves

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's known claim reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Inter-Company Agreements (Page 4): It is recommended that the cost sharing agreement be submitted to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5. It is also recommended that the tax allocation agreement be submitted to the CDI for approval pursuant to CIC Section 1215.5.

Previous Report of Examination

Management and Control – Inter-Company Agreements (Page 4): It was recommended that the cost sharing agreement be amended to include all affiliates. The agreement should specify that the shared costs are settled between the affiliates at least quarterly. The Company amended its cost sharing agreement to include all affiliates and is currently settling costs on a quarterly basis.

Management and Control – Conflict of Interest (Page 6): It was recommended that the board of directors and officers of the Company, on a yearly basis, complete conflict of interest questionnaires. The directors are now completing conflict of interest questionnaires on a yearly basis.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

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