

REPORT OF EXAMINATION
OF
WESTCOR LAND TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

Participating State
and Zone:

California

Filed June 2, 2009

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San Francisco, California
May 29, 2009

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

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Department of Insurance
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of

WESTCOR LAND TITLE INSURANCE COMPANY

(also referred to as the Company) at its home office located at 201 N New York Avenue, Suite 200, Winter Park, Florida, 32789. The statutory home office is located at 189 Fulweiler Avenue, Auburn, California 95603.

SCOPE OF EXAMINATION

The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2007.

The present examination of the Company included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2007, 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; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

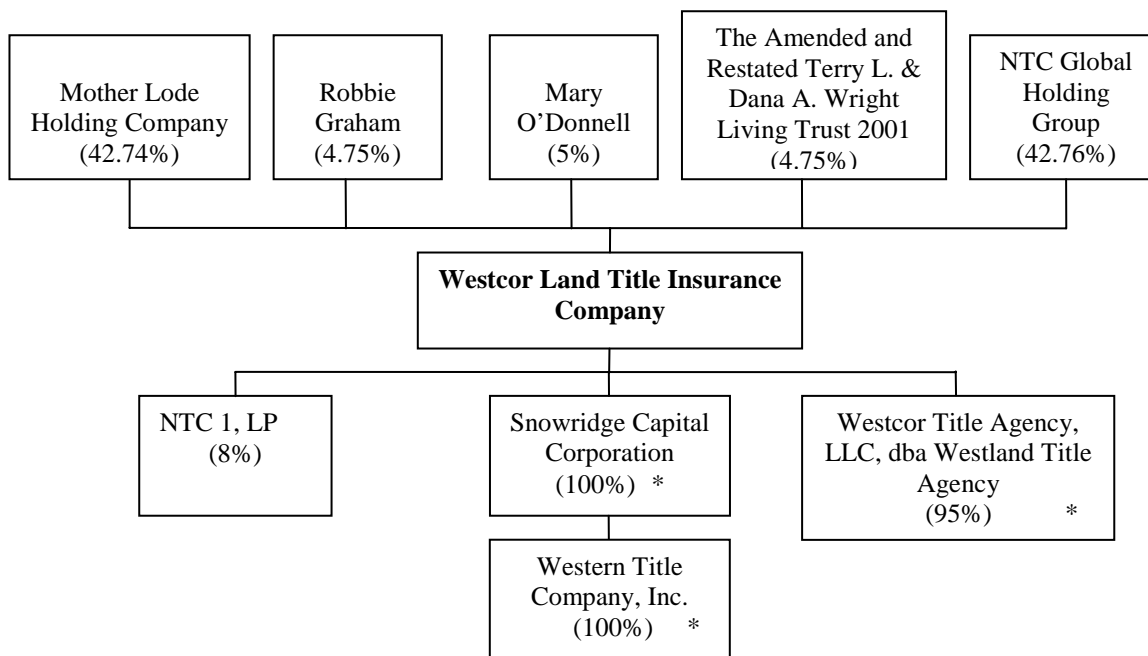
SUBSEQUENT EVENT

On April 22, 2009, the Company filed its Amended and Restated Articles of Incorporation with the Secretary of State of California. The Company sought approval of the filing which increases the authorized total number of shares to 41,000 of which 31,000 are common stock at \$65 par value and 10,000 no par value shares of Class A Preferred stock. Approval was given on April 24, 2009. Simultaneously, the Company filed an application with the California Department of Insurance for a securities permit authorizing the Company to sell and issue 6,496 shares of its no par value preferred stock at a sale price of \$462 per share. The total consideration for the sale would be \$3,001,152, of which the company received \$2,000,000 as a surplus contribution in December 2008. The funds received will be utilized to meet operational needs. The application is pending at this time.

MANAGEMENT AND CONTROL

The Company is owned 42.76% by NTC Global Holdings, 42.74% by Mother Lode Holding Company, 5% by Mary O'Donnell, and 4.75% each by Robbie Graham and the Amended and Restated, Terry L. and Dana A. Wright Living Trust 2001. NTC Global Holdings is owned 100% by Terry L. Wright and is the ultimate controlling person of the Company.

The following is an abbreviated version of the organizational chart showing only the owners and subsidiaries of the Company as of December 31, 2007.



* Westcor Title Agency, LLC , Snowridge Capital Corporation and Western Title Company, Inc. were sold May 31, 2008.

Mother Lode Holding Company owns 100% of five of the underwritten title companies which produce business for the Company. NTC Global Holdings owns 100% of Nevada Title Company. These underwritten title companies produced the majority of the business for the Company through 2005. Their share of the Company's business has reduced substantially over the last two years as the Company expands into other regions.

Management of the Company is vested in a five-member board of directors elected annually. Members of the board and principal officers serving at December 31, 2007 were as follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robbie D. Graham Las Vegas, Nevada	President Nevada Title Company
Roy W. Lassiter Winter Park, Florida	Former President American Pioneer Title Company
Mary O'Donnell Orlando, Florida	President / Chief Executive Officer Westcor Land Title Insurance Company
David Philipp Auburn, California	Chief Financial Officer Mother Lode Holding Company
Terrence L. Wright Las Vegas, Nevada	Owner, Chairman of the Board Nevada Title Company

Principal Officers

<u>Name</u>	<u>Title</u>
Mary O'Donnell	President and Chief Executive Officer
Michael Schefstad	Treasurer and Chief Financial Officer
Patricia W. Bower	Secretary and General Counsel

The Company requires annual conflict of interest statements from all directors and officers.

Management Agreements

Service Agreements: In 2003, the Company entered into a management arrangement with Mother Lode Holding Company (Mother Lode), who has provided services such as Treasurer, Legal, Underwriting, General Counsel, and Data Processing Services. Currently, the services are limited to Legal and Claims Administration. During the last examination, the Company was not in compliance with California Insurance Code (CIC) Section 1215.5(b)(4) because that agreement had not been filed with the California Department of Insurance (CDI). That agreement was filed subsequent to the examination and approved.

The Company also has an agreement with Nevada Title Company (NTC) who provides various accounting, purchasing and computer services. The Company had a practice where it shared employees with NTC, but this arrangement had not been included in the agreement as of the last examination. The Company made the appropriate revisions, filed it with CDI and obtained its approval.

Tax Sharing Agreement: The Company's federal income tax return is filed on a consolidated basis with its subsidiary, Snowridge Capital Corporation. As the primary owner (95%) of Westcor Title Agency of Arizona, LLC, DBA Westland Title Agency, it also files the yearly partnership tax returns. The Tax Allocation Agreement dated December 31, 2007, was not filed with the CDI as required by CIC Section 1215.5(b)(4). While this agreement should have been filed with CDI, it is not necessary to do so at this time because of the sale of the subsidiaries. It is recommended the Company comply with the CIC filing requirements for all contracts and transactions.

Affiliated Investments

The Company was not in compliance with CIC Section 1215.5 (b)(1) because it increased its investment in its 95% owned subsidiary, Westcor Title Agency of Arizona, LLC, DBA Westland Title Agency (Westland) to \$723,430 and did not file for prior approval with the CDI. This transaction was filed with the CDI in October of 2004. The transaction has not been approved as of this examination but the sale of Westland was completed on May 31, 2008, after the approval for sale was given by the CDI.

Also sold at that time to the same buyer was Snowridge Capital Corporation along with its subsidiary, Western Title Company, Inc. This sale was approved by the CDI May 15, 2008.

CORPORATE RECORDS

The Company is not in compliance with California Insurance Code (CIC) Sections 1200 and 1201 that require the individual approval of investments in the board meeting minutes or in the investment committee minutes. Since the last examination, the Company has formed an investment committee that approves all investment transactions, but approval was not noted in the committee minutes. Reports of the investments transactions were attached to the minutes.

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Company was licensed to write title insurance in the states of Alabama, Arizona, California, Colorado, Florida, Hawaii, Idaho, Kansas, Maryland, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Texas, Utah, and Virginia. The Company is also licensed in the District of Columbia. The states producing the most business in 2007 were:

Florida	36.3%
California	33.0%
Nevada	19.2%
Arizona	6.1%
Colorado	4.1%

During the examination period the Company withdrew from the states of Illinois, Indiana, Utah, West Virginia, and the District of Columbia because of a lack of production. The Company was readmitted to Utah on April 21, 2005, after developing business contacts in that state. The Company obtained its reinstated Certificate of Authority in the District of Columbia on July 23, 2007, as the earlier withdrawal was rescinded. Subsequent to the examination date, the Company was admitted to Wyoming.

Direct premiums written were \$51,140,417 in 2004, \$57,474,213 in 2005, \$50,067,731 in 2006 and \$52,626,728 in 2007.

In 2004, business was written through 9 affiliated and 1 unaffiliated underwritten title companies with over 99% written in California, Nevada and Arizona. Beginning in 2005, the Company expanded its operations into other states through a growing agency force that numbered 272 by December 31, 2007. As a result of the new agents and the deterioration of the housing market in California and Nevada, the non-affiliated agents accounted for 41% of the 2007 direct written premium.

REINSURANCE

Assumed

The Company has assumed an immaterial amount of excess of loss reinsurance from First American Title Insurance Company on a facultative certificate basis. Its participation is usually in the third or fourth tier from the retained liability of the primary underwriter.

Ceded

As of December 31, 2007, the Company had the following reinsurance contracts in force:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess of Loss	Chicago Title Insurance Company	\$100,000	\$5 million
Excess of Loss	Commonwealth Land Title Insurance Company	\$100,000	\$1 million
Excess of Loss	First American Title Insurance Company	\$100,000	\$5 million

The Company entered into a reinsurance agreement with Commonwealth Land Title Insurance Company (Commonwealth) in 1995. Under the terms of this agreement, the Company pays 2% of premiums on policies reinsured. In 2001, the Company entered into a reinsurance agreement with Chicago Title Insurance Company (Chicago) under which the Company pays 1.5% of premiums on policies reinsured. During 2008, Commonwealth and Chicago terminated the treaties in accordance with their termination clauses without giving a reason.

A reinsurance treaty with First American Title Insurance Company (FAT) was entered into in January 2004 with a retroactive effective date of December 31, 2003. Under the terms of the

agreement, the Company pays 1.5% of premiums on the policies it cedes for a maximum of \$5 million in excess of \$100,000. Effective February 20, 2008, this treaty was amended to change the retention to \$200,000 and made a corresponding change in the premium to 2.0% of the basic policy premium. On September 19, 2008, FAT notified the Company it was terminating this treaty effective September 19, 2009. The termination was in accordance with the termination clause with no reason necessary or given.

A new reinsurance treaty with Stewart Title Insurance Company has been entered into effective May 1, 2009. Under terms of the agreement, the Company will pay \$0.57 per thousand dollars of risk ceded for a maximum of \$7.5 million in excess of \$800,000. The amount retained will increase annually while the premium will decrease in accordance with the following schedule:

Treaty Year	Retained Loss Risk	Premiums per Thousand Dollars of Risk Ceded
2009	\$ 800,000	\$0.570/1,000
2010	\$1,000,000	\$0.550/1,000
2011	\$1,500,000	\$0.525/1,000
2012	\$2,000,000	\$0.500/1,000

ACCOUNTS AND RECORDS

The Company notified its directors that the previous Report of Examination had been received but there was no notice recorded in the minutes that the report was available for review by the members of the board as required by California Insurance Code (CIC) Section 735. It is recommended that the Company comply with CIC Section 735.

The Company does not have written procedures for handling unclaimed property and the filings with states in which they are licensed. The Company has not had any applicable property to date and has not made any filings as a result.

Information System Controls

A review was made of the Company's general controls over its information systems. As a result of the review, weaknesses were noted in areas such as system and program development controls, operations controls, logical and physical security controls, and contingency planning. The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. It is recommended the Company evaluate the recommendations and take appropriate steps to strengthen its information system controls. While many of the prior examination recommendations were addressed, there are many of the same or similar findings in this examination.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Operations and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders from January 1, 2004
through December 31, 2007

Statement of Financial Condition
as of December 31, 2007

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$14,323,071	\$	\$14,323,071	(1)
Common stocks	3,576,893		3,576,893	(1)
Cash on deposit and short-term investments	1,971,897		1,971,897	(1)
Other invested assets	839,526		839,526	
Title plants	137,650		137,650	
Investment income due and accrued	184,950		184,950	
Uncollected premiums and agents' balances in the course of collection	1,822,544		1,822,544	
Current federal and foreign income tax recoverable and the interest thereon	805,900		805,900	
Net deferred tax asset	1,842,054	1,493,388	348,666	
Electronic data processing equipment	217,525	217,525		
Furniture and equipment	227,713	227,713		
Receivable from parent, subsidiaries and affiliates	83,088	35,814	47,274	
Prepaid expenses and deposits	220,358	220,358		
Notes receivable	<u>203,349</u>	<u>199,039</u>	<u>4,310</u>	
Total assets	<u>\$26,456,518</u>	<u>\$2,393,837</u>	<u>\$24,062,681</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Known claims reserves			\$ 594,127	(2)
Statutory premium reserve			13,492,778	(2)
Other expenses (excluding taxes, licenses and fees)			639,150	
Taxes, licenses and fees			561,286	
Payable to parent, subsidiaries and affiliates			78,295	
Aggregate write-ins for other liabilities			<u>34,565</u>	
Total liabilities			15,400,201	
Common capital stock		\$1,083,290		
Gross paid-in and contributed surplus		2,486,364		
Unassigned funds (surplus)		<u>5,092,828</u>		
Surplus as regards policyholders			<u>8,662,482</u>	
Total liabilities, surplus and other funds			<u>\$24,062,683</u>	

Operations and Investment Exhibit
for the Year Ended December 31, 2007

Statement of Income

Operating Income

Title insurance premiums earned		\$51,967,673
Deductions:		
Loss and loss adjustment expenses incurred	\$ 912,036	
Operating expenses incurred	<u>52,354,461</u>	
Total operating deductions		<u>53,266,497</u>
Net operating loss		(1,298,824)

Investment Income

Net investment income earned	\$ 725,026	
Net realized capital losses	<u>(867,387)</u>	
Net investment loss		<u>(142,361)</u>
Net loss before federal income taxes		(1,441,185)
Federal income taxes incurred		<u>29,995</u>
Net loss		<u>\$ (1,471,180)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$ 11,273,356
Net income	\$ (1,471,180)	
Net unrealized loss	(653,937)	
Change in net deferred income tax	152,398	
Change in nonadmitted assets	<u>(638,153)</u>	
Change in surplus as regards policyholders for the year		<u>(2,610,872)</u>
Surplus as regards policyholders, December 31, 2007		<u>\$ 8,662,484</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2007

Surplus as regards policyholders, December 31, 2003, per Company				\$7,142,861
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 183,730	\$		
Net unrealized gain	1,145,621			
Change in net deferred income tax	706,542			
Change in nonadmitted assets		1,694,521		
Aggregate write-in for loss in surplus	<u>1,178,251</u>	<u> </u>		
Total gains and losses in surplus	<u>\$3,214,144</u>	<u>\$1,694,521</u>		
Increase in surplus as regards policyholders				<u>1,519,623</u>
Surplus as regards policyholders, December 31, 2007, per Examination				<u>\$8,662,484</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds, Stocks and Cash on Deposit

As of December 31, 2007, the Company maintained a small amount of bonds in Morgan Stanley, who is not a qualified custodian. The Company closed the account in March 2009 so as to comply with California Insurance Code Section 1104.9.

(2) Known Claim Reserves

The Company obtained an actuarial report from Milliman, Inc. (Milliman), its independent actuarial consulting firm. Milliman estimated the Company's loss and loss adjustment expense reserves to be \$6.1 million as of December 31, 2007 based on external title insurance industry development patterns because of the low volume and variability of the Company's loss experience. The \$6.1 million is comprised as follows:

Loss and allocated loss adjustment expense on known claims	\$ 594,000
Anticipated adjustments to case reserves and incurred but not reported claims	4,788,000
Unallocated loss adjustment expenses	686,000
Total	\$6,068,000

Because the Company's statutory premium reserve as of the examination date was \$13.5 million Milliman concluded that no statutory supplemental reserve was required.

The examiner reviewed the Milliman report and subsequent development through December 31, 2008. Subsequent development totaled only \$913,000 and, therefore, the reserves were determined to be adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Tax Sharing Agreement – (Page 5): It is recommended the Company comply with the California Insurance Code (CIC) filing requirements for all contracts and related party transactions.

Corporate Records – (Page 5): It is recommended the Company comply with CIC Sections 1200 and 1201.

Accounts and Records – (Page 8): It is recommended the Company comply with CIC Section 735.

Information System Controls – (Page 8): It is recommended the Company evaluate the recommendations and take appropriate steps to strengthen its information system controls.

Bonds, Common Stocks and Cash on Deposit – (Page 13): The Company closed the account in March 2009 to comply with CIC Section 1104.9.

Previous Report of Examination

Management and Control – Intercompany Service Arrangements – (Page 4): It was recommended that the Company revise its agreement with Nevada Title Company (NTC) to include the arrangement whereby Westcor shares employees with NTC and submit the agreement to the California Department of Insurance (CDI) for approval. The Company filed the amended agreement and obtained the approval of the CDI.

Corporate Records – (Page 5): It was recommended that the Company comply with CIC Sections 1200 and 1201 and that it comply with its bylaws. The Company is still not in compliance with CIC Sections 1200 and 1201 as this is a repeat finding as noted on Page 5 of this report.

Accounts and Records – (Page 8): It was recommended that the Company develop the means to provide future examiners with supporting detail to trace from the general ledger to the Annual Statement balances. It was also recommended that the Company properly substantiate its expenses and comply with its own expense reimbursement guidelines. The Company is now in compliance.

It was recommended that the Company comply with CCR, Title 10, Section 2695.3, that the claims and accounting departments work together to ensure proper reporting of claim data and that the Company prepare Schedule P in accordance with the Annual Statement Instructions. The Company has made all of these recommended changes.

Accounts and Records – Information System Controls - (Page 9): It was recommended the Company take steps to strengthen its information system controls. While many of these recommendations were addressed, there are many of the same or similar findings noted in this examination.

Comments on Financial Statement Items – Bonds, Stocks and Cash on Deposit - (Page 15): It was recommended the Company comply with CIC sections 1104.1 and 1104.9. The Company is now in compliance.

Comments on Financial Statement Items – Known Claim Reserves – (Page 15): It was recommended the Company comply with CIC Section 12388. The Company is now in compliance.

Comments on Financial Statement Items – Statutory Premium Reserve – (Page 16): It was recommended the Company calculate its Statutory Premium Reserve correctly. The Company is now in compliance.

ACKNOWLEDGEMENT

The undersigned would like to thank the Company's officers and employees for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

/s/

Wayne Leiran, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California