REPORT OF EXAMINATION
OF THE
WESTCOR LAND TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Filed June 25, 2013

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San Francisco, California
May 2, 2013

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of

WESTCOR LAND TITLE INSURANCE COMPANY

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

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2011. 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; and statutory deposits.

COMPANY HISTORY

In 2008, the Company received $2,000,000 in cash from the following stockholders: the Amended & Restated Terry L. and Dana A. Wright Living Trust 2001, Robbie Graham, and Mary O'Donnell, in exchange for shares of $0 par value, Series A convertible preferred capital stock that was expected to be issued in 2009. The receipt of cash was recorded as gross paid in and contributed surplus in 2008 because at the time of the contribution the Company's Articles of Incorporation did not permit the issuance of preferred capital stock. The Company amended its Articles of Incorporation on April 28, 2009 to authorize the issuance of up to 31,000 shares of common capital stock and 10,000 shares of preferred capital stock. Subsequently, the Company filed a Securities Permit Application with the California Department of Insurance (CDI) to sell and issue up to 6,496 shares of Series A convertible preferred capital stock. On January 21, 2010, the CDI approved the Company's application. During 2010, the Company issued 4,330 shares of its $0 par value, Series A convertible preferred capital stock to the Amended & Restated Terry L. and Dana A. Wright Living Trust 2001, Robbie Graham, and Mary O'Donnell.

Dividends Paid to Shareholders

In 2011, the Company issued an ordinary preferred stock dividend of $200,000 to its preferred capital stock shareholders. All three shareholders elected to convert the dividend into shares of common capital stock. As a result, 433 additional shares of common capital stock were issued in 2011 and the shares were allocated to each shareholder in proportion to each shareholder's preferred capital stock holdings.

In 2012, the Company declared an ordinary preferred stock dividend of $400,000 to its preferred capital stock shareholders, of which $200,000 was paid and converted into 433 additional shares of common capital stock in May 2013 and $200,000 is anticipated to be distributed in June 2013. The transactions in 2011 and 2012 did not result in a change in ultimate control of the Company.

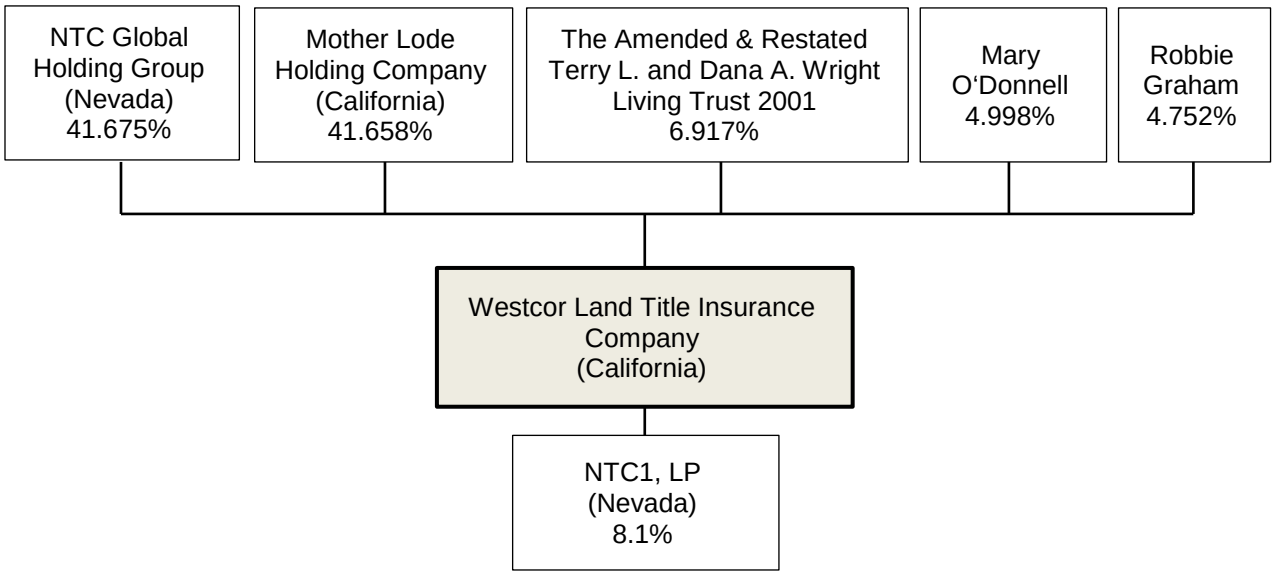
The Company is not in compliance with California Insurance Code (CIC) Section 1215.4(f) because the Company did not file the Report of Dividend for the above dividends with the California Department of Insurance (CDI) within five days following declaration and did not allow for at least 10 business days after receipt of the Report of Dividend by the CDI before paying the dividends. It is recommended the Company implement procedures to ensure the issuance of dividends comply with CIC Section 1215.4(f).

The shares of stock that were issued in 2011 were made under an expired securities permit. It is recommended the Company implement procedures to ensure that a securities permit is obtained from the CDI for any new issuance of shares of capital stock in accordance with CIC Section 827.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Terry L. Wright is the ultimate controlling person. Terry L. Wright owns 100% of NTC Global Holding Group (NTC Global) and is the trustee for the Amended and Restated Terry L. and Dana A. Wright Living Trust 2001 (Trust). The Company is owned 41.675% by NTC Global, 41.658% by Mother Lode Holding Company, 6.917% by the Trust, 4.998% by Mary O'Donnell, and 4.752% by Robbie Graham.

The following is an abbreviated version of the organizational chart showing only the owners and subsidiaries of the Company as of December 31, 2011:



Management and control of the Company is vested in a five-member Board of Directors elected annually. As of December 31, 2011, the members serving on the Board were as follows:

Directors

Name and Residence	Principal Business Affiliation
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 and Chief Executive Officer Westcor Land Title Insurance Company
David M. Philipp El Dorado Hills, California	Chief Financial Officer Mother Lode Holding Company
Terry L. Wright Las Vegas, Nevada	Owner, Chairman of the Board Nevada Title Company

The principal officers serving as of December 31, 2011 were as follows:

Principal Officers

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

Management Agreements

Cost Sharing Agreements: Effective July 31, 2003, the Company entered into a cost sharing agreement with Mother Lode Holding Company (MLHC). Under the terms of this agreement, the following services are performed on behalf of the Company by MLHC: treasurer, legal, claims, underwriting, general counsel, and data processing services. The Company reimburses MLHC on an actual cost basis. This agreement was approved by the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) on September 15, 2006.

Amended Cost Sharing Agreement: Effective July 25, 2005, the Company entered into an amended cost sharing agreement with Nevada Title Company (NTC), a wholly owned subsidiary of NTC Global Holding Group. Under the terms of this agreement, the following services are shared between the Company and NTC: accounting services; facilities and supplies; data processing services; human resources; and administrative and other services. Each party is charged a monthly amount at actual cost based on a staff allocation time study. This agreement was approved by the CDI pursuant to CIC Section 1215.5(b)(4) on September 15, 2006.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company is licensed to write title insurance in the District of Columbia and the following states:

Alabama	Idaho	Nebraska	South Dakota
Arizona	Indiana	Nevada	Tennessee
Arkansas	Kansas	New Jersey	Texas
California	Kentucky	New Mexico	Utah
Colorado	Maryland	New York	Vermont
Connecticut	Massachusetts	North Dakota	Virginia
Delaware	Minnesota	Ohio	Washington
Florida	Mississippi	Oklahoma	West Virginia
Georgia	Missouri	Pennsylvania	Wisconsin
Hawaii	Montana	Rhode Island	Wyoming

Direct premiums written during 2011 totaled $156.8 million. The top five states with the most business in 2011 were:

States	Percentage of Direct Premiums
California	22.7%
Florida	19.4%
New York	10.8%
Colorado	10.5%
Texas	7.7%

As of April 24, 2013, the Company has applications pending for Certificate of Authority for the following states: Illinois, Oregon, Maine, Michigan, New Hampshire, North Carolina, and South Carolina.

The Company acquires business through affiliated and non-affiliated agents. As of December 31, 2011, the Company had 821 active agents. Affiliated agents include Placer Title Company and National Closing Solutions (both 100% owned by Mother Lode Holding Company) and Nevada Title Company (100% owned by NTC Global Holding Group). Business produced by affiliated agents has dropped significantly from 46.3% in 2008 to 21.2% in 2011.

REINSURANCE

Assumed

The Company assumes reinsurance on a facultative basis. Reinsurance premiums assumed during the examination period were immaterial.

Ceded

The Company ceded reinsurance to authorized reinsurers. As of December 31, 2011, the Company had the following reinsurance contracts in force:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess of Loss			
First Layer (1)	Lloyd's of London (various)	$500,000 ultimate net loss (UNL), any one loss occurrence	$1.5 million UNL excess $500,000, each and every loss occurrence
Second Layer	Lloyd's of London (various)	$2 million UNL, any loss occurrence	$3 million UNL excess $2 million, each and every loss occurrence

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess of Loss	Stewart Title Guaranty Company	$2 million per policy	$7.5 million without prior approval per policy; $25 million with prior approval per policy.

(1) Effective May 1, 2012, the excess of loss reinsurance agreement with Lloyd's of London was amended to change the first layer of the Company's retention to $750,000 ultimate net loss of any one loss occurrence and the reinsurer's limit to $1.25 million ultimate net loss each and every loss occurrence. The agreement was also amended to add a third layer of coverage up to a limit of $5 million each and every loss occurrence in excess of the Company's retention of $5 million for any one loss occurrence.

The Excess of Loss reinsurance agreement with Stewart Title Guaranty Company was determined to be deficient as to form pursuant to California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3, (CCR Title 10) Section 2303.14 because the agreement contains an early termination provision that is not in compliance with the aforementioned regulations. The reinsurance agreement permit the reinsurer to terminate the agreement upon the entry of an order of rehabilitation, conservation or liquidation against the Company, which is a violation of CCR Title 10 Section 2303.14(b)(1)(A). In addition, the reinsurance agreement allows the reinsurer to terminate the agreement immediately upon notice to the ceding company, whereas CCR Title 10 Section 2303.14(b)(1)(B) requires the reinsurer to give at least 60-day notice. It is recommended the Company ensure the early termination provision in its reinsurance agreements complies with CCR Title 10 Section 2303.14(b)(1), paragraphs (A) and (B).

The Governing Law clause in the Excess of Loss reinsurance agreement with Lloyd's of London states that the agreement shall be governed by and construed in accordance with the laws of the State of Florida. The Company is a California domiciled insurance company; as such, any reinsurance agreements whereby the Company is the ceding insurer should be governed by and construed in accordance with the laws of the State of California. It is recommended that the Company amend this reinsurance agreement

to state that the agreement shall be governed by and construed in accordance with the laws of the State of California.

ACCOUNTS AND RECORDS

Although the Company did not have any unclaimed property to report, it was observed that the Company did not have formal procedures for identifying long outstanding unpaid cash items and escheating such items to the State of California in accordance with the Unclaimed Property Law (commencing with Section 1500 of the California Code of Civil Procedure). It is recommended the Company adopt formal procedures to identify and report such items in accordance with the Unclaimed Property Law.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Operations and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2007 through December 31, 2011

Reconciliation of Examination Changes as of December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Non-ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 19,943,723	$	$ 19,943,723	
Cash and short-term investments	9,298,577		9,298,577	
Other invested assets	2,851,357	150,837	2,700,520	(1)
Title plants	151,725		151,725	
Investment income due & accrued	219,533		219,533	
Uncollected premiums and agents' balances in course of collection	5,532,942	245,429	5,287,513	(4)
Current federal and foreign income tax recoverable and interest thereon	39,595		39,595	
Net deferred tax asset	1,757,193	1,516,214	240,979	
Electronic data processing equipment and software	223,431	223,431		
Furniture and equipment	162,614	162,614		
Health care and other amounts receivable	(7,585)	(7,585)		
Aggregate write-ins for other than invested assets	438,306	438,306		(1)
Total assets	$ 40,611,411	$ 2,729,246	$ 37,882,165	
Liabilities, Surplus and Other Funds				
Known claim reserve			$ 604,600	(2)
Statutory premium reserve			21,070,157	(2)
Other expenses			1,458,458	
Taxes, licenses and fees			721,103	
Payable to parent, subsidiaries and affiliates			6,561	
Aggregate write-ins for liabilities			204,135	
Total liabilities			24,065,014	
Common capital stock		$ 1,111,435		(3)
Preferred capital stock		2,000,460		
Gross paid in and contributed surplus		2,486,364		
Unassigned funds (surplus)		8,218,892		(1)(3)(4)
Surplus as regards policyholders			13,817,151	
Total liabilities, surplus and other funds			$ 37,882,165	

Operations and Investment Exhibit
for the Year Ended December 31, 2011

Statement of Income

Operating Income			Notes
Title Insurance premium earned	$ 151,949,880		
Other title fees and service charges	2,861,517		
Total operating income		$ 154,811,397	
Deductions:			
Losses and loss adjustment expenses incurred	$ 3,300,142		
Operating expense incurred	150,278,983		
Total underwriting deductions		153,579,125	
Net underwriting gain		1,232,272	
Investment Income			
Net investment income earned		692,885	
Net income before dividends to policyholders and before federal income taxes		1,925,157	
Federal and foreign income taxes incurred		776,478	
Net income		$ 1,148,679	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$ 13,085,385	
Net income	$ 1,148,679		
Change in net deferred income tax	347,770		
Change in nonadmitted assets	(764,683)		(1)(4)
Capital changes: Transferred from surplus (stock dividend)	28,145		(3)
Surplus adjustments: Transferred to capital (stock dividend)	(28,145)		(3)
Change in surplus as regards policyholders for the year		731,766	
Surplus as regards policyholders, December 31, 2011		$ 13,817,151	

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2011

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2007, per Examination			$ 8,662,484
Net income	$ 3,448,937	$	
Change in net deferred income tax	41,138		
Change in nonadmitted assets		335,408	
Capital changes: Paid in	2,000,000		
Capital changes: Transferred from surplus	28,145		
Surplus adjustments: Transferred to capital		28,145	
Total gains and losses	$ 5,518,220	$ 363,553	
Net increase in surplus as regards policyholders			5,154,667
Surplus as regards policyholders, December 31, 2011, per Examination			$ 13,817,151

Reconciliation of Examination Changes
as of December 31, 2011

	Per Company	Per Examination	Surplus Increase (Decrease)	Notes
Other invested assets	$	$ 2,700,520	$ 2,700,520	(1)
Aggregate write-ins for other than invested assets	2,851,357		(2,851,357)	(1)
Uncollected premiums and agents' balances in course of collection	5,532,942	5,287,513	(245,429)	(4)
Net decrease to surplus			(396,266)	
Surplus as regards policyholders, December 31, 2011, per Company			14,213,417	
Surplus as regards policyholders, December 31, 2011, per Examination			$ 13,817,151	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Other Invested Assets

The Company is the holder of two loans (promissory notes) that were issued by ET Investments, LLC (ET) in connection with the sale of its former subsidiaries, Snowridge Capital Corporation (Snowridge) and Westcor Title Agency of Arizona, LLC dba Westland Title Agency of Arizona (Westland) in 2008. The principal on the promissory notes at the time of issue for Snowridge and Westland were $2,676,808 and $312,108, respectively. The promissory note for Snowridge is secured by 100% of Snowridge's capital stock and the promissory note for Westland is secured with 100% of the membership interest in Westland. The California Department of Insurance (CDI) issued a no-objections letter in response to the sale on May 22, 2008. Snowridge and Westland were sold to ET for $2,987,603 and $351,313, respectively, on May 30, 2008. The balances of promissory notes as of December 31, 2011 for Snowridge and Westland were $2,543,608 and $295,308, respectively.

It is noted that the promissory notes are not in compliance with California Insurance Code (CIC) Section 1196(c) because the amount of each loan exceeded eighty-five percent of the market value, at the date of the loan, of the collateral taken as security for each loan. For purposes of CIC Section 1196(c), the selling price of each company was used as the market value. An examination adjustment was made to non-admit the portion of the promissory notes that exceed eighty-five percent of the collateral. It is recommended the Company implement procedures to ensure that its excess funds investments comply with CIC Section 1196(c).

In addition, an examination adjustment was made to reclassify the promissory notes from the account Aggregate Write-ins for Other Than Invested Assets to the account Other Invested Assets in accordance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions. It is recommended the

Company implement procedures to ensure that loans are reported on the proper annual statement line in accordance with the NAIC Annual Statement Instructions.

(2) Known Claims Reserve and Statutory Premium Reserve

A Casualty Actuary from the California Department of Insurance (CDI) reviewed the Company's carried total Schedule "P" reserves and determined that they were reasonable. Furthermore, it was determined that no supplemental reserve was necessary because the Company's Known Claims Reserve ($604,600) plus its Statutory Premium Reserve ($21,070,157) exceeds the total Schedule "P" reserves ($18,246,000).

The Company did not include a bulk reserve with its Known Claims Reserve, which is not in compliance with the current guidance in NAIC Statement of Statutory Accounting Principles (SSAP) No. 57. Although the Schedule "P" Reserves were found to be reasonable, it was estimated that a $2 million bulk reserve should have been recorded. No adjustment was made as the Statutory Premium Reserve was $21,070,157. It is recommended the Company submit a request for a Permitted Accounting Practice to the CDI for a departure from SSAP No. 57.

(3) Common Capital Stock and Unassigned Funds

As of December 31, 2011, the Company had 4,330 shares of Series A convertible no par value preferred capital stock issued and outstanding. The preferred capital shares entitle the holder to receive annual dividends at the current rate of 10% of the Series A Original Issue Price, payable annually, when, as and if declared by the Board of Directors. Such dividends are cumulative.

In 2011, the Board of Directors declared a 10% preferred stock dividend to its Series A preferred capital stock shareholders and which the preferred shareholders elected to

convert the dividend into 433 shares of common capital stock with a par value of $65 per share in 2011.

Errors were noted in the Company's accounting treatment for the above dividend and stock conversion transactions. The dividend transaction was not reported on the Company's Operations and Investment Exhibit. An examination adjustment was made to the Operations and Investment Exhibit - Capital and Surplus Account section to recognize the dividend transaction. Secondly, the increase in the common capital stock account as a result of the dividend-to-common capital stock conversion was incorrectly stated. The Company reported a $200,000 increase in the common capital stock account instead of recognizing just the increase representing the multiple of the new common capital shares issued and the par value of the common shares (433 shares x $65 par value = $28,145). This error resulted in an overstatement of the common capital stock account. Examination adjustments were made to correctly state the common capital stock account and to properly reflect these changes in the Operations and Investment Exhibit. It is recommended the Company implement procedures to ensure that changes to the capital and surplus accounts are properly stated.

(4) Uncollected Premiums and Agents' Balances

As of December 31, 2011, the Company had $245,429 in uncollected premiums and agents' balances that were over 90 days due that the Company did not non-admit on its balance sheet. An examination adjustment was made to non-admit the overdue amount. It is recommended the Company non-admit uncollected premiums and agents' balances that are over 90 days in accordance with the NAIC SSAP No. 6, paragraph 9.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Company History – Dividends Paid to Shareholders (Page 3): It is recommended the Company implement procedures to ensure the issuance of dividends comply with California Insurance Code (CIC) Section 1215.4(f).

It is recommended the Company implement procedures to ensure that a securities permit is obtained from the California Department of Insurance (CDI) for any new issuance of shares of capital stock in accordance with CIC Section 827.

Reinsurance – Ceded (Page 7): It is recommended the Company ensure that the early termination provision in its reinsurance agreements comply with California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3, Section 2303.14(b)(1), paragraphs (A) and (B).

It is recommended that the Company amend the Governing Law clause in the Excess of Loss reinsurance agreement with Lloyd's of London to state that the agreement shall be governed by and construed in accordance with the laws of the State of California.

Accounts and Records (Page 9): It is recommended the Company adopt formal procedures to identify and report escheatable items with the State Controller's Office in accordance with the Unclaimed Property Law.

Comments on Financial Statement Items – Other Invested Assets (Page 14): It is recommended the Company implement procedures to ensure that its excess funds investments comply with CIC Section 1196(c).

It is recommended that the Company implement procedures to ensure that loans are reported on the proper annual statement line in accordance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions.

Comments on Financial Statement Items – Known Claim Reserves and Statutory Premium Reserves (Page 15): It is recommended the Company submit a request for a Permitted Accounting Practice to the CDI for a departure from the guidance in the NAIC Statement of Statutory Account Principle (SSAP) No. 57.

Comments on Financial Statement Items – Common Capital Stock and Unassigned Funds (Page 15): It is recommended that the Company implement procedures to ensure that changes to the capital and surplus accounts are properly accounted.

Comments on Financial Statement Items – Uncollected Premiums and Agents' Balances (Page 16): It is recommended the Company non-admit uncollected premiums and agents' balances that are over 90 days in accordance with the NAIC SSAP No. 6, paragraph 9.

Previous Report of Examination

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

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

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

Information System Controls – (Page 8): It was recommended the Company evaluate the recommendations and take appropriate steps to strengthen its information system controls. A limited review was made of the Company's information system controls during the current examination which resulted in no further comments.

Bonds, Common Stocks and Cash on Deposit – (Page 13): As of December 31, 2007, the Company maintained a small amount of bonds with Morgan Stanley, who is not a qualified custodian pursuant to CIC Section 1104.9. The Company closed the account in March 2009 to comply with CIC Section 1104.9.

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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Ber Vang, CFE, AES, CISA
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California