

REPORT OF EXAMINATION  
OF THE  
BUYERS HOME WARRANTY COMPANY  
AS OF  
DECEMBER 31, 2006

Filed February 26, 2008

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Los Angeles, California  
November 30, 2007

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**BUYERS HOME WARRANTY COMPANY**  
(dba BEST HOME WARRANTY COMPANY outside California)

(hereinafter also referred to as the Company) at the primary location of its books and records, 550 North Third Street, Burbank, California 91502.

#### SCOPE 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, 2006. 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, 2006, as deemed necessary under the circumstances.

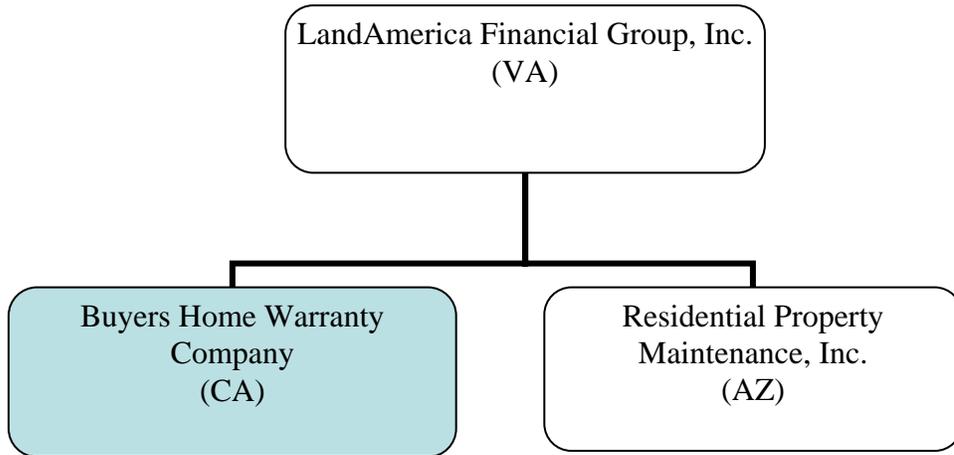
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

## COMPANY HISTORY

On September 1, 2004, LandAmerica Financial Group, Inc. (LandAmerica), a publicly traded Virginia corporation that provides title insurance and other real estate related services, purchased all the issued and outstanding shares of the Company. On December 29, 2006, the Company paid a cash dividend in the amount of \$3 million to LandAmerica.

## MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of LandAmerica Financial Group, Inc. The following abridged organizational chart depicts the Company's relationship within the holding company system:



(\*) All ownership is 100%

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

## Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Andrew S. Brownstein(*) Richmond, Virginia	Chairman of the Board LandAmerica Financial Group, Inc.
Raymond G. Adam (*) Burbank, California	President Buyers Home Warranty Company
David W. Goodwin Simi Valley, California	Senior Vice President Buyers Home Warranty Company
Glyn J. Nelson (*) Richmond, Virginia	Senior Vice President Land America Financial Group, Inc.
Jeffrey D. Vaughn Richmond, Virginia	Senior Vice President Land America Financial Group, Inc.

## Principal Officers

<u>Name</u>	<u>Title</u>
Raymond G. Adam (*)	President
Eric A. Miller (*)	Senior Vice President and Chief Financial Officer
David W. Goodwin	Senior Vice President and Treasurer
Phyllis `K` Miller (*)	Secretary

(\*) Resigned in 2007

Raymond G. Adam was replaced by David W. Goodwin as President. Eric A. Miller was not replaced and the Chief Financial Officer's position was eliminated. The Company's accounting function was consolidated with the parent company, LandAmerica Financial Group, Inc. The Company is now an operation center of acquiring and servicing home warranty contracts.

## Management Agreements

**Service Agreement:** The Company entered into a service agreement with its affiliate, Residential Property Maintenance, Inc. (RPM), on December 31, 2005, under which the Company provides investment, administrative, management and other related services to RPM. During 2006, the Company received \$390,000 for the services rendered. The California Department of Insurance (CDI) approved the agreement on February 28, 2006.

**Agency Agreement:** The Company entered into an agency agreement with CRES Insurance Services, LLC (CRES) on June 1, 2004. Under this agreement, the Company appointed CRES as exclusive agent to solicit applications for CRES Home Warranty Plan contracts in the states of Arizona, California, Nevada, and Texas based upon the rates and the underwriting guidelines provided by the Company. The Company has the absolute right to accept or reject contract applications. The Company pays CRES a commission, for new contracts, of \$20 per contract for the first 400 contracts each month and \$30 per contract in excess of 400 contracts issued per month.

**Consolidated Federal Income Tax Liability Allocation and Payment Agreement:** The Company and its affiliates are part of a consolidated federal income tax agreement with the ultimate parent, LandAmerica Financial Group, Inc. (LandAmerica). Allocation of taxes is based upon separate return calculations with inter-company tax balances settled on a quarterly basis after the filing of the consolidated return. It is recommended that the Company submit this agreement to the CDI for approval and report it in its Form B filing to comply with California Insurance Code (CIC) Section 1215.4(b)(3)(H).

## Holding Company Transactions

The Company's parent, LandAmerica Financial Group, Inc. (LandAmerica) provides certain management services for the Company including, but not limited to, investment, payroll, human resources and accounting. These services were provided without a written agreement. During 2006, the Company paid \$142,250 in fees to LandAmerica for these services. It is recommended that the

Company enter into a written agreement with LandAmerica to address the services provided and submit the agreement to the CDI for approval in accordance with the requirements of CIC Section 1215.5.

### CORPORATE RECORDS

The Company's board actions regarding the authorization and approval of investments did not satisfy the requirements of California Insurance Code (CIC) Section 1200 and 1201. The Company's minutes failed to document the authorization or approval of its investments, which is in violation of CIC Section 1200. In addition, specific references to amounts, facts, and the value of the securities were not included as required under CIC Section 1201. It is recommended that the Company implement procedures to comply with CIC Sections 1200 and 1201.

### TERRITORY AND PLAN OF OPERATION

The Company issues home protection contracts to owners of single-family homes, multiple unit buildings and mobile homes. Single-family and multiple-unit contracts are written for a twelve-month period. Mobile home contracts are written on a six-month basis.

The Company was licensed to transact home protection business in all states except Virginia. In 2007, the Company was admitted in Virginia. The total home protection fees written was \$29.5 million in 2006, of which \$18.4 million (62%) was written in California, \$9.1 million (31%) was written in Texas and \$2 million (7%) was written in the remaining states. In October 2007, the Company started offering home warranty coverage for sellers.

The Company is obligated to repair or replace covered systems and appliances, which become inoperable due to normal wear and tear during the term of a contract. The following are covered within the basic provisions of the contract: plumbing, electrical and heating systems, water heaters, washers/dryers, dishwashers and garbage disposals, faucets, hot water dispensers, garage door

openers, ranges and built-in microwave ovens, built-in trash compactors, ceiling fans, septic tanks, and sewer lines. The Company also offers optional coverage for an additional charge for air conditioning systems, pool and spa equipment, refrigerators, roofs, well pump systems, red tag options, and radon gas endorsements. Contracts do not cover structural defects, underground or inaccessible plumbing and electrical systems.

### REINSURANCE

The Company did not assume or cede any reinsurance during the examination period.

### ACCOUNTS AND RECORDS

During 2005 and 2006, the Company made certain adjustments to the federal income tax liability account without valid supporting documentation. It is recommended that the Company maintain documentation to support all accounting adjustments. The documentation should be prepared in sufficient detail to allow for a full and complete audit trail.

### FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Contract Holders  
from December 31, 2003 through December 31, 2006

Reconciliation of Examination Changes as of December 31, 2006

Statement of Financial Condition  
as of December 31, 2006

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash on deposit	\$ 26,602,119	\$	\$ 26,602,119	(1)
Home protection contract fees receivable	1,147,409	(1,147,409)		(2)
Electronic data processing equipment	43,809	(43,809)		(3)
Other assets	<u>3,051</u>	<u>                    </u>	<u>3,051</u>	
 Total assets	 <u>\$ 27,796,388</u>	 <u>\$ (1,191,218)</u>	 <u>\$ 26,605,170</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Claims adjusted and unpaid or in process of adjustment			\$ 829,672	(4)
Claims service expense			331,869	
Other expenses			221,246	
Taxes, licenses and fees			(48,708)	
Federal income taxes			1,198,011	
Unearned home protection fees			11,787,137	
All other liabilities:				
Escheat deposits			51	(5)
Intercompany payable			<u>191,668</u>	
 Total liabilities			 14,510,946	
 Common capital stock		 \$ 20,400		
Gross paid-in and contributed surplus		60,000		
Unassigned funds (surplus)		<u>12,013,824</u>		
 Surplus as regards contract holders			 <u>12,094,224</u>	
 Total liabilities, surplus and other funds			 <u>\$ 26,605,170</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income

Home protection contract fees earned \$ 29,612,000

Deductions:

Claims incurred	\$	12,186,969
Claims service expense incurred		3,902,598
Other expenses incurred		<u>9,241,525</u>

Total deductions 25,331,092

Net underwriting gain 4,280,908

Investment Income

Net investment income earned \$ 1,169,138

Net investment income earned 1,169,138

Other Income

Service fee income	\$	221,574
Miscellaneous income		<u>6,927</u>

Total other income 228,501

Net income before federal income taxes 5,678,546

Federal income taxes incurred 3,250,895

Net income \$ 2,427,651

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2005 \$ 13,955,547

Net income \$ 2,427,651

Change in non-admitted assets (1,288,974)

Dividends to stockholders (3,000,000)

Change in surplus as regards contract holders for the year (1,861,323)

Surplus as regards contract holders, December 31, 2006 \$ 12,094,224

Reconciliation of Surplus as Regards Contract Holders  
from December 31, 2003 through December 31, 2006

Surplus as regards contract holders, December 31, 2003, per Examination			\$ 5,836,627
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 7,729,670	\$	
Change in nonadmitted assets	1,527,927		
Dividend to stockholders	<u>                    </u>	<u>3,000,000</u>	
Totals	<u>\$ 9,257,597</u>	<u>\$ 3,000,000</u>	
Net increase in surplus as regards contract holders			<u>6,257,597</u>
Surplus as regards contract holders, December 31, 2006, per Examination			<u>\$ 12,094,224</u>

Reconciliation of Examination Changes  
as of December 31, 2006

<u>Assets</u>	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Notes</u>
Home protection contract fees receivable	\$ 1,147,409	\$ 0	\$ (1,147,409)	(2)
Electronic data processing equipment	43,809	0	<u>(43,809)</u>	(3)
Net decrease to surplus as regards contract holders			\$ (1,191,218)	
Surplus as regards contract holders, December 31, 2006 per Company			<u>13,285,442</u>	
Surplus as regards contract holders, December 31, 2006 per Examination			<u>\$ 12,094,224</u>	

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Cash on Deposit

The Company included its investment in bonds in its cash on deposit account. It is recommended that the Company report its investment in bonds on the appropriate line in the Annual Statement.

The Company utilizes Union Bank as a custodian for its securities. It was noted that the Company does not have a custodial agreement with Union Bank. It is recommended that the Company enter into a custodial agreement with Union Bank and submit the agreement to the California Department of Insurance (CDI) for approval to comply with California Insurance Code (CIC) Section 1104.9(d).

The Company maintains a \$2.2 million investment (municipal bond mutual fund) with Wachovia Securities (Wachovia). Wachovia is not a qualified custodian or sub-custodian as defined under CIC Section 1104.9. It is recommended that the Company transfer the investment to a qualified custodian to comply with CIC Section 1104.9.

### (2) Home Protection Contract Fees Receivable

As of December 31, 2006, the Company accrued \$1,147,409 for home protection contract fees receivable. Upon reviewing the supporting details of this account, it was noted that the Company did not use the effective date of the contracts to record the receivable, which was not in compliance with paragraph 7a of Statements of Statutory Accounting Principles (SSAP) No.6. As a result, an examination adjustment was made to non-admit this item. It is recommended that the Company record its home protection contract fees receivable according to SSAP No. 6.

(3) Electronic Data Processing Equipment

The Company's electronic data processing equipment did not meet the requirement of California Insurance Code (CIC) Section 1194.95; therefore the entire asset of \$43,809 was nonadmitted.

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

Based on a review of subsequent claim payments, the Company's estimation of \$829,672 for its unpaid claims as of December 31, 2006 was determined to be reasonably stated and has been accepted for purposes of this examination report.

(5) All Other Liabilities: Escheat Deposits

A review of the Company's outstanding checks listing disclosed that the Company failed to comply with the California Code of Civil Procedures of Title 10, which states that property remaining unclaimed by its owner for more than three years reverts or escheats to the state. All businesses are required to report unclaimed property on or before October 31 of each year to the State Controller's Office. It is recommended that the Company record escheat liabilities properly. It is recommended that the Company comply with Title 10 and implement procedures to ensure future compliance.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Management Agreements (Page 4): It is recommended that the Company submit the Consolidated Federal Income Tax Liability Allocation and Payment Agreement to the California Department of Insurance (CDI) for approval and report it in its Form B filing to comply with California Insurance Code (CIC) Section 1215.4(b)(3)(H).

Management and Control - Holding Company Transactions (Page 4): It is recommended that the Company enter into a written agreement with LandAmerica to address the services provided and submit the agreement to the CDI for approval in accordance with the requirements of CIC Section 1215.5.

Corporate Records (Page 5): It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201.

Accounts and Records (Page 6): It is recommended that the Company maintain documentation to support all accounting adjustments. The documentation should be prepared in sufficient detail to allow for a full and complete audit trail.

Financial Statement Items – Cash on Deposit (Page 11): It is recommended that the Company report its investment in bonds on the appropriate line in the Annual Statement.

It is recommended that the Company enter into a custodial agreement with Union Bank and submit the agreement to the California Department of Insurance (CDI) for approval to comply with CIC Section 1104.9(d). It is also recommended that the Company transfer its investments held at Wachovia Securities to a qualified custodian to comply with CIC Section 1104.9.

Financial Statement Items – Home Protection Contract Fees Receivable (Page 11): It is recommended that the Company record its home protection contract fees receivable according to Statements of Statutory Accounting Principles (SSAP) No. 6.

Financial Statement Items – All Other Liabilities: Escheat Deposits (Page 12): It is recommended that the Company record escheat liabilities properly. It is recommended that the Company comply with Title 10 and implement procedures to ensure future compliance.

### Previous Report of Examination

Management and Control: It was recommended that the Company file an annual Registration Statement with the California Department of Insurance in accordance with California Insurance Code (CIC) Section 1215.4. The Company has complied with this recommendation.

Electronic Data Processing Equipment: It was recommended that the Company nonadmit its electronic data processing equipment in compliance with CIC Section 1194.95. The Company was not in compliance with CIC Section 1194.95; therefore the entire asset of \$43,809 was nonadmitted.

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/

Irene Song, CFE  
Examiner-In-Charge  
Senior Insurance Examiner (Specialist)  
Department of Insurance  
State of California