

REPORT OF EXAMINATION
OF THE
CALIFORNIA MEMBERS TITLE
INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Filed on December 28, 2020

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Los Angeles, California
September 30, 2020

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA MEMBERS TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office is located at 701 North Grand Boulevard, Glendale, California, 91203.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. This is the first regular statutory examination of the Company, since it received its Certificate of Authority in California on July 22, 2015. This examination covered the period from January 1, 2016 through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial

statements included herein. If, during the course of the examination, an adjustment is identified, the impact on such adjustment will be documented separately following the Company's financial statement.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This examination was performed concurrently with the Company's subsidiary, California Members Title Company, an underwritten title company.

COMPANY HISTORY

The Company was incorporated on February 26, 2014 under the laws of the State of California. The Company received its Certificate of Authority from the California Department of Insurance (CDI) on July 22, 2015 to transact title insurance business, and began operations in October 2015. The Company is only licensed in the State of California.

Capitalization

The Company is authorized to issue 100,000 shares of common stock, with a \$100 par value. As of December 31, 2019, there are 10,000 shares issued and outstanding.

MANAGEMENT AND CONTROL

The Company's sole shareholder is California Members Holding Company which is wholly-owned by California Credit Union (CCU), a California non-profit corporation. CCU is a member-owned credit union licensed by the State of California and no individual holds 10% or more of its voting securities.

The Company's only subsidiary, California Members Title Company, was incorporated on March 26, 2016 and licensed in July 2017.

The following organizational chart depicts the Company's relationship within the holding company system (all ownership is 100%).

California Credit Union
California Members Holding Company
California Members Title Insurance Company (California)
California Members Title Company

The six members of the board of directors, who are elected annually, oversee the business affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2019.

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
John Bretthauer Glendale, California	Executive Vice President and Chief Credit Officer California Credit Union
Patrick Carey Glendale, California	Executive Vice President, General Counsel and Chief Administrative Officer California Credit Union
Hudson Lee San Diego, California	Executive Vice President and Chief Financial Officer California Credit Union
Mark Lovewell Glendale, California	Executive Vice President and Chief Risk Officer California Credit Union
Steven O'Connell San Diego, California	President and Chief Executive Officer California Credit Union
Patrick Zarifian Glendale, California	Senior Vice President and Chief Lending Officer California Credit Union

Principal Officers

<u>Name</u>	<u>Title</u>
Frank Berriz	President and Chief Executive Officer
Patrick Carey	Secretary
Mark Lovewell	Treasurer

Management Agreements

Administrative Services Agreement: Effective July 30, 2015, an Administrative Services and Cost Sharing Agreement was entered between the Company and California Credit Union (CCU). Under the terms of the agreement, CCU provides the Company the following services: financial statement preparation, budget and cost accounting, human resources, payroll, office services, computer services, and other services. This agreement was submitted to the California Department of Insurance (CDI) for review with the Company's 2015 application for its California Certificate of Authority (IDB#15-3611), and approved on July 22, 2015. Compensation for services is based on a cost allocation reimbursement. During the years, 2015, 2016, 2017, and 2018, the Company paid CCU \$805,097, \$1,602,096, \$1,806,472, and \$156,384, respectively.

Assignment and Assumption Agreement: Effective February 20, 2019, the Company, CCU, and California Members Title Company (CMTC), entered into an Assignment and Assumption Agreement. Under the terms of the agreement, the Company assigns to CMTC, all of the Company's rights and obligations under the Administrative Services and Cost Sharing Agreement, and CMTC assumes and agrees to pay to CCU all of the Company's obligations under the Assignment and Assumption Agreement. The Company did not submit the Assignment and Assumption Agreement with the CDI for pre-approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). It is recommended that the Company file the Agreement with the CDI pursuant to CIC Section 1215.5(b)(4).

Agency Agreement: Effective October 1, 2016, the Company and CMTC entered into a Non Exclusive Title Insurance Issuing Agency Agreement (NTIIAA). Under the term of the NTIIAA, CMTC will issue, on behalf of the Company, title insurance policies to its

customers as a non-exclusive agent in 58 counties in the State of California. Per the NTIIAA, CMTC will keep 88% of the premium. The premium remit rate to the Company is agreed at 12%.

TERRITORY AND PLAN OF OPERATION

The Company is only licensed to transact title insurance business in the State of California, and has no immediate strategic plans to apply and extend their business into other states.

Since receiving its Certificate of Authority from the California Department of Insurance in July 2015, the Company's written premium volume has steadily increased annually as follows:

<u>Year</u>	<u>Direct Premium Written</u>
2015	\$ 67,000
2016	\$ 563,000
2017	\$ 692,000
2018	\$ 1,000,000
2019	\$ 2,200,000

The business model is mostly for residential title risks with some commercial title business. With few exceptions, the Company's maximum policy limit is \$3 million. Company estimates that approximately 97% of its business is generated for residential properties, and most of it relates to refinances. Majority of its business are generated from different credit union members in the State of California through its parent company, the CCU, and through other sales representatives.

REINSURANCE

Assumed and Ceded

The Company did not assume or cede reinsurance during the period covered by this examination.

ACCOUNTS AND RECORDS

A review was made of the Company's 2019 Annual Statement pursuant to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions. It was noted that the following required disclosure items were either not disclosed or misstated in the Annual Statement, such as:

- Missing Schedule Y, part 2, Summary of Affiliated Transactions;
- Missing Information concerning Investment Manager;
- Missing Federal Income Tax related information;
- Misstatement of authorized common capital stocks in Note 13 (1).

It is recommended that the Company comply with all applicable sections of the NAIC Annual Statement Instructions in preparing its annual statement filing.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2019

Operation and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2015
through December 31, 2019

Analysis of Changes to Surplus as of December 31, 2019

Statement of Financial Condition
as of December 31, 2018

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,361,255	\$	\$ 1,361,255	
Common stocks	317,746		317,746	(1)
Mortgage loans: First liens	1,598,056		1,598,056	
Cash	1,560,888		1,560,888	
Investment income due and accrued	9,416		9,416	
Electronic data processing equipment	282	282		
Receivables from parent, subsidiaries and affiliates	28,118		28,118	
Aggregate write-ins for other than invested assets	11,052	11,052		
Total assets	\$ 4,886,813	\$ 11,334	\$ 4,875,479	
<u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Known claims reserve			\$ 0	(2)
Statutory premium reserve			207,638	(2)
Supplemental reserve			125,862	(2)
Payable to parent, subsidiaries, and affiliates			2,278	
Total liabilities			335,778	
Common capital stock			1,000,000	(3)
Gross paid-in and contributed surplus			7,010,000	
Unassigned funds (surplus)			(3,470,299)	
Surplus as regards policyholders			4,539,701	
Total liabilities, surplus, and other funds			\$ 4,875,479	

Operations and Investment Exhibit for
the Year Ended December 31, 2019

Operating Income

Title insurance premium earned	\$ 2,145,115	
Total Operating Income		\$ 2,145,115

Expenses

Operating expenses incurred	\$ 2,039,586	
Total operating expenses		\$ 2,039,586

Net operating gain		105,529
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Investment Income

Net investment income earned	\$ 99,204	
Net investment gain		99,204

Other income

Total other income		\$ 0
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Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		204,733
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Net income		\$ 204,733
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 4,988,969
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Net income	\$ 204,733	
Change in net unrealized capital losses	(359,008)	
Change in nonadmitted assets	(11,334)	
Change in supplemental reserves	(125,862)	
Adjustment of common stock (affiliates)	(157,797)	

Change in surplus as regards policyholders for the year		(449,268)
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Surplus as regards policyholders, December 31, 2019		\$ 4,539,701
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Reconciliation of Surplus as Regards Policyholders
from December 31, 2015 through December 31, 2019

Surplus as regards policyholders, December 31, 2015				\$ 7,268,445
	Gain in Surplus	Loss in Surplus		
Net losses	\$	\$	909,294	
Change in net unrealized capital losses			1,524,457	
Change in supplemental reserves			125,862	
Change in nonadmitted assets			11,334	
Total losses	\$	\$	2,570,947	
Adjustment of Common Stock (affiliate)		\$	157,797	
Net decrease in surplus as regards policyholders				2,728,744
Surplus as regards policyholders, December 31, 2019				\$ 4,539,701

Analysis of Changes to Surplus as of December 31, 2019

The Company overstated \$157,797 of its invested asset of its subsidiary, California Members Title Comp, in their 2019 Annual Statement. Please see discussion on the details of this adjustment in the “Comments on Financial Statement Items – Common Stocks” in the paragraph below. Due to the overstatement, the following adjustment was made to the 2019 Annual Statement:

Surplus as regards policyholders, December 31, 2019, per Annual Statement				\$	4,697,498
		<u>Increase</u>		<u>Decrease</u>	
Common stocks	\$		\$	157,797	
Net decrease					(157,797)
Surplus as regards policyholders, December 31, 2019, after adjustment				\$	4,539,701

Summary of Reclassifications as of December 31, 2019

As a result of the examination, the following reclassifications were made that have no impact on surplus. The Company misclassified its Common Capital Stock and Gross Paid-In and Contributed Surplus as follows:

<u>Annual Statement Line Item</u>	<u>Balance per Annual Statement</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjusted Balance</u>
Common capital stock	\$ 8,000,000	\$	\$ 7,000,000	\$ 1,000,000
Gross paid in and contributed surplus	\$ 10,000	\$ 7,000,000	\$	\$ 7,010,000

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

An adjustment was made to the Company’s investment in its subsidiary, California Members Title Company (CMTC) by the Certified Public Accounting firm in its audited 2019 Financial Statement. The Company overstated the value of its invested subsidiary by \$157,797. As a result, the Common Stocks was adjusted from \$475,543 to \$317,746 and the Surplus as Regards Policyholders was adjusted from \$4,697,498 to \$4,539,701.

(2) Known Claims Reserve, Statutory Premium Reserve, and Supplemental Reserves (Loss Reserves)

A California Department of Insurance Senior Casualty Actuary evaluated the Known Claim Reserve, Statutory Premium Reserve, and Supplemental Reserves (loss reserves) as of December 31, 2019. Based on the Casualty Actuary's analysis, the Company's loss reserves as of December 31, 2019 were found to be reasonably stated and have been accepted for purposes of this examination.

(3) Common Capital Stock and Gross Paid in and Contributed Surplus

As a result of the examination, reclassifications were made to the above captioned lines that had no impact on surplus. The Company misclassified its Common Capital Stock and Gross Paid in and Contributed Surplus. An examination reclassification was made to decrease Common Capital Stocks and increase Gross Paid in and Contributed Surplus by \$7,000,000.

SUBSEQUENT EVENTS

In March 2020, the Company made a cash capital contribution of \$200,000 to its subsidiary, California Members Title Company (CMTC), in order to keep it in compliance with the minimum net worth requirements for an underwritten title company under California Insurance Code Section 12389(a)(2). The capital contribution to CMTC corrected CMTC's deficiency.

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic.° The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the insurance industry and economy. °The examination's review of the impact to the Company through the date of this report noted that there has not been a significant impact to the Company. As of the date of this report, significant uncertainty still remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. °The California Department of Insurance continues to closely monitor the impact

of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements (Page 5): It is recommended that the Company file the Assignment and Assumptions Agreement with California Department of Insurance pursuant to California Insurance Code Section 1215.5(b)(4).

Accounts and Records – (Page 7): It is recommended that the Company adhere to all Annual Statement instructions pursuant to the National Association of Insurance Commissioners Annual Statement Instructions.

Previous Report of Examination

None, as previous report was a Qualifying Report of Examination.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers during the course of this examination.

Respectfully submitted,

_____/S/_____

George Xue, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

_____/S/_____

Edward Aros, CFE
Senior Insurance Examiner, Supervisor
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