REPORT OF EXAMINATION
OF THE

FIRST AMERICAN TITLE
INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

Participating States
and Zones:

California
Delaware, Zone 1 – Northeastern

Filed June 30, 2009

TABLE OF CONTENTS

PAGE

SCOPE OF EXAMINATION 1

SUMMARY OF SIGNIFICANT FINDINGS 2

SUBSEQUENT EVENTS 2
1031 Exchange 3

COMPANY HISTORY 4

MANAGEMENT AND CONTROL: 5
Management Agreements 10

TERRITORY AND PLAN OF OPERATION 12

GROWTH OF COMPANY 13

LOSS EXPERIENCE 13

REINSURANCE: 14
Assumed 14
Ceded 15

ACCOUNTS AND RECORDS: 16
Receivable from Parent 16
Escrow Accounts 17
Custodial Agreement 17

FINANCIAL STATEMENTS: 18
Statement of Financial Condition as of December 31, 2007 19
Operations and Investment Exhibit for the Year Ended December 31, 2007 20
Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2007 21
Reconciliation of Examination Changes as of December 31, 2007 22

COMMENTS ON FINANCIAL STATEMENT ITEMS: 23
Stocks: Common Stocks 23
Mortgage Loans on Real Estate 23
Real Estate 24
Receivable from Parent, Subsidiaries and Affiliates 24
Known claims reserve 24
Statutory premium reserve 24
Supplement reserve 24

SUMMARY OF COMMENTS AND RECOMMENDATIONS: 25

Current Report of Examination 25
Previous Report of Examination 26

ACKNOWLEDGEMENT 28

Los Angeles, California
June 1, 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 Joel Ario
Secretary, Zone I-Northeastern
Insurance Commissioner
Pennsylvania Department of Insurance
Harrisburg, Pennsylvania

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

Dear Chairman, Secretaries, and Commissioner:

Pursuant to your instructions, an examination was made of the

FIRST AMERICAN TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1 First American Way, Santa Ana, California 92707.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. An examiner from Delaware, representing Zone I-Northeastern of the NAIC, participated in the

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, 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: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; and sales and advertising.

SUMMARY OF SIGNIFICANT FINDINGS

During 2007, the Company began a process of restructuring and integration with its wholly owned subsidiary, United General Title Insurance Company ("UGT"), which continued into 2008. Subsequent to 2007, UGT experienced adverse claim loss development on insured events of prior years. These factors and the deteriorating real estate market resulted in the Company's determination that it was desirable to turn UGT into a substantially inactive insurer. During 2008, the Company received consent to an interaffiliate Instrument of Transfer and Assumption, by which UGT transferred all business in-force, and associated assets and liabilities, including claims related reserves to the Company. This examination noted a reduction of the Company's surplus as regards policyholders as of December 31, 2007 due to the decrease per examination in the admitted value of the Company's common stock investment in its subsidiary, UGT. UGT has subsequent developments in 2008 of its loss and los adjustment expense reserves as of December 31, 2007. See FINANCIAL STATEMENTS section.

SUBSEQUENT EVENTS

The Company filed an application pursuant to California Insurance Code (CIC) Section1011(c) with the California Department of Insurance (CDI) to enter into an Instrument of Transfer and

Assumption agreement with the Company's subsidiary, United General Title Insurance Company (UGT). On October 23, 2008, the CDI approved the application with an effective date of September 30, 2008. Effective September 30, 2008, 100% of the business and the assets and liabilities associated therewith of UGT was assumed by the Company.

On December 31, 2008 the Company received the following capital contributions: one thousand shares of its affiliate First American Professional Real Estate Services valued at $43.2 million and three thousand shares of its affiliate First American Trust Company valued at $31.8 million.

As of December 31, 2008, the Company reported as an admitted asset a $100 million capital contribution receivable from its parent, The First American Corporation (FAC). On February 28, 2009, in accordance with the Statement of Statutory Accounting Principles (SSAP) No. 72, the Company received approval from the California Department of Insurance (CDI) to report a capital contribution receivable from FAC consisting of $45 million to be paid in cash and $10 million to be paid in marketable securities. Also, on February 28, 2009, pursuant to SSAP No. 97, paragraph 8, the CDI issued a permitted accounting practice enabling the Company to report, as of December 31, 2008, a capital contribution receivable from FAC consisting of a thirty percent ownership interest in an affiliate, LeadClick Holdings, LLC (LeadClick) with a value of $45 million. On March 2, 2009, the $100 million capital contribution receivable was settled as the Company received from FAC, $45 million in cash, $10 million in marketable securities and the thirty percent ownership interest in LeadClick with a value of $45 million.

1031 Exchange

First American Exchange (FAE), a subsidiary of the Company, provides 1031 property exchange services for clients mostly from the Company's affiliated underwriter, First American Title Company and to other affiliated and non-affiliated escrow and title companies. As of December 31, 2008, FAE's 1031 exchange deposits were made with FDIC insured institutions in the amount of $420 million of which $343 million is with affiliated banks. First American Corporation, ultimate

parent of the Company, has a treasury team which is in charge of monitoring the stability of financial institutions used by its subsidiaries. Unless otherwise directed by the client, FAE places exchange funds into bank deposit accounts.

As of December 31, 2008, FAE's investments were placed with the following institutions:

Bank of America	$ 250,000
Bank of New York	5,262,460
BT&T	1,817,689
First American Trust, FSB (1031 Web) (*)	159,412,686
First American Trust, FSB (IBA) (*)	135,131
First American Trust, FSB (T-Bills) (*)	7,288,447
First Security Thrift (*)	176,492,969
Flagship Bank	100,000
JP Morgan Chase	4,699,050
Rabo Bank	23,960,215
Union Bank of California	48,201
Vermillion Bank	90,338
Wells Fargo Bank	40,244,818
Total	$ 419,802,004

(*) Affiliated companies

The Company noted that since late 2008, no new 1031 exchange balances are being placed by FAE with First American Trust, FSB (FA Trust) within the 1031 Web Program. FAE 1031 exchange balances placed with FA Trust has decreased from $1.2 billion at the beginning of 2008. All 1031 exchange deposits with FA Trust within the 1031 Web Program were fully distributed by April 30, 2009.

COMPANY HISTORY

The Company is authorized to issue ten million shares of common stock at a par value of $100 per share. During 2006, the Company increased its authorized shares from five million to ten million.

There were two million shares of common stock outstanding as of December 31, 2007. The First American Corporation (FAC) owns 100% of the outstanding shares of common stock.
On August 3, 2007, the Company paid a $35 million ordinary cash dividend to FAC.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of The First American Corporation (FAC). The following is a list of the Company's direct and indirect subsidiaries including its ownership percentage:

Subsidiaries	Percent of Ownership
Direct	
All New York Title Agency Corporation	100.00%
ATI Title	100.00%
Attorney's Abstract, Inc.	100.00%
Bridge Title Insurance Company	100.00%
Brokers Title	100.00%
California Title	30.00%
Carriage Escrow	49.00%
Censtar Title Insurance Company	100.00%
Columbian National Title Insurance Company	100.00%
Cornerstone Title Company	55.00%
Eastern Abstract	20.93%
Emerging Market Technology Application	25.00%
FATCO Holdings, LLC*	100.00%
First American Homebuyers Protect Corporation	92.26%
First American Title Company**	100.00%
First American Title Company, Inc. Hawaii	96.00%
First American Title Company of Stockton	100.00%
First American Title Insurance Company of Australia Pty	100.00%
First American Title Insurance Company of Kansas	100.00%
First American Title Insurance Company of Louisiana	100.00%
First American Title Insurance Company of New York	100.00%
First American Title & Trust Company, Oklahoma	100.00%
First American Transportation Insurance Company	100.00%
First Australian	99.99%

Subsidiaries	Percent of Ownership
First Hong Kong Title	100.00%
First States	100.00%
First Title PLC dba First American Title Insurance Company	100.00%
Investors Title Company	19.99%
Island Title Corporation	60.00%
Land Title Insurance Company of St. Louis	100.00%
Massachusetts Title Insurance Company	77.35%
Mid Valley Title and Escrow Company	59.59%
New York Abstract Company	100.00%
Ohio Bar	100.00%
Pacific Northwest Title Holding Company	100.00%
Penn Attorneys Title Insurance Company	100.00%
Pilgrim Title Insurance Company Rhode Island	35.00%
Port Lawrence Title and Trust Company	100.00%
State Title Insurance Company	100.00%
T.A. Holdings, Inc.	100.00%
The Trust Company of St. Louis	100.00%
Title Insurance Company of Oregon	100.00%
United General Title Insurance Company	100.00%
Western National Title Insurance Company	100.00%

Indirect

ACS Title and Closing Services, Inc.	100.00%
AKT, Inc.	100.00%
Alliance Home Warranty	100.00%
American Property Exchange, Inc.	84.21%
A.R.E.A. Title Agency, Inc.	17.00%
BrightRedd Limited	100.00%
Closing Network Ltd.	100.00%
Enact Holdings Limited	100.00%
Exchange Services, Inc.	100.00%
Fairbanks Title Agency, Inc.	57.14%
First American Homebuyers Protection of Delaware	50.00%
First American Title Company of Montana	100.00%
First Guaranty Bancorp	100.00%
First Title Insurance PLC	100.00%
First Title New Zealand Limited	100.00%
First Title Services Limited	100.00%
Island Title Exchange, Inc.	100.00%
L&H Abstract Corporation	100.00%

Subsidiaries	Percent of Ownership
Massachusetts Abstract Company Inc.	100.00%
Morgan Kennedy Limited	100.00%
Mortgage Guarantee & Title	100.00%
Mt. Shasta Title and Escrow Company	64.50%
Pacific Northwest Title Building, Inc.	100.00%
Pacific Northwest Title Company of Kenai	55.81%
Pacific Northwest Title Company of Snohomish County	87.75%
Pacific Northwest Title Company of Spokane, Inc.	90.25%
Pacific Northwest Title Company of Washington, Inc.	100.00%
Pacific Northwest Title Insurance Company	81.85%
Pacific Northwest Title of Alaska, Inc.	58.14%
Pacific Northwest Title of Lane County, LLC	100.00%
Pacific Northwest Title of Oregon, Inc.	95.00%
Parking Intermediary Corporation	100.00%
Preferred Land Title Services	100.00%
T.A. Financial Services, Inc.	100.00%
T.A. Title Agency, Inc.	100.00%
T.A. Title Agency of Ohio, Inc.	100.00%
T.A. Title Insurance Company	100.00%
The Live Organization Limited	100.00%
Title Abstract Company of Pennsylvania	100.00%
Title Alliance Limited	100.00%
Title Insurance Agency, Inc.	53.33%
Title Optics, Inc.	100.00%

* FATCO Holdings, LLC (FATCO LLC) was formed on August 15, 2007. The primary purpose of creating the downstream holding company was to simplify the audit process for the Company's non-insurance subsidiary, controlled and affiliated (SCA) entities. In lieu of obtaining audits for each individual SCA entity, as required by the Statement of Statutory Accounting Principles No. 97, one audit of the consolidated FATCO LLC is now required.

** Formerly named First American Title Company of Los Angeles

Management of the Company is vested in a seventeen-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Directors

Name and Residence	Principal Business Affiliation
Chester C. Carmer, III Paradise Valley, Arizona	Regional Vice President First American Title Insurance Company
Curt A. Caspersen San Diego, California	Chief Operating Officer and Senior Executive Vice President First American Title Insurance Company
Michael W. Conway Tallahassee, Florida	Southeast Regional Vice President First American Title Insurance Company
Joseph J. Ghilardi Naperville, Illinois	Chief Operating Officer – National Commercial Services Division and Senior Vice President First American Title Insurance Company
Thomas H. Grifferty Oakville, Ontario, Canada	Regional Vice President First American Title Insurance Company
James M. Harmsworth Laguna Niguel, California	Chief Financial Officer First American Title Insurance Company
Thomas S. Hartman Seattle, Washington	Northwest Regional Vice President First American Title Insurance Company
Robert J. Hauser, Jr. (*) Newton, Pennsylvania	Senior Vice President First American Title Insurance Company
John M. Hollenbeck Corona, California	Senior Executive Vice President First American Title Insurance Company
Curt G. Johnson San Juan Capistrano, California	President First American Title Insurance Company
Parker S. Kennedy Orange, California	Chairman First American Title Insurance Company
Gary L. Kermott (*)	Vice Chairman

Name and Residence	Principal Business Affiliation
Dana Point, California	First American Title Insurance Company
James M. Orphanides (*) Princeton, New Jersey	Executive Vice President First American Title Insurance Company
Mark W. Sachau Soquel, California	Divisional President – California and Hawaii First American Title Insurance Company
Joseph S. Tavarez San Juan Capistrano, California	President, National Homebuilders Division First American Title Insurance Company
Landon V. Taylor (*) Irvine, California	President, Strategic Markets Division First American Title Insurance Company
Sally F. Tyler Alpharetta, Georgia	President, National Commercial Services First American Title Insurance Company

Principal Officers

Name	Title
Curt G. Johnson	President
Curt A. Caspersen	Chief Operating Officer
John M. Hollenbeck	Senior Executive Vice President
John N. Casbon	Executive Vice President
Timothy V. Kemp	Secretary
Craig I. DeRoy (*)	Vice President
Timothy P. Sullivan	General Counsel
James M. Harmsworth	Chief Financial Officer

(*) resigned in 2008

Management Agreements

Cost Allocation Agreement: The Company and its parent, The First American Corporation (FAC), are parties to this agreement. The Company provides to FAC services, facilities, and benefits which are requested by FAC and are available from the Company. The agreement has been in force since January 1, 1996. Under the terms of this agreement, allocated costs or expenses for services provided by the Company to FAC shall be paid to the Company within 90 days from the date of allocation. This agreement appears to be outdated and its contract language is vague. For example, the agreement does not specify a specific due date as required by the Statement of Statutory Accounting Principles (SSAP) No. 96. In addition, many affiliates of the Company who are not party to the agreement are running their transactions through the Company's intercompany accounts (see Accounts and Records and Comments on Financial Statement Items). It is recommended that the Company revise this agreement and submit it to the California Department of Insurance (CDI) for approval.

Cost Allocation Agreement: The Company, FAC and its wholly-owned subsidiary First American Title Insurance Company of New York (FANY) are parties to this agreement. The Company and FAC provide to FANY services, facilities, and benefits which are requested by FANY and are available from the Company and FAC. The agreement has been in force since January 1, 1997. Allocated costs or expenses for services provided by the Company and FAC to FANY shall be paid within 90 days from the date of allocation.

Management Agreement: The Company and First American Title Insurance Company of Kansas (FATKS) are parties to this agreement. The Company provides management and office services to FATKS. The agreement has been in force since July 8, 1999. The Company provides an invoice after the close of each month for the cost incurred by the Company to FATKS. FATKS pays all invoices within 90 days of the date of allocation.

Underwriting Agreement: The Company maintains an Underwriting Agreement with First American Title Company (FATCO), an underwritten title company, for the purpose of issuing title insurance policies in the following counties of California: Alameda, Alpine, Amador, Calaveras, Contra Costa, Del Norte, El Dorado, Fresno, Humboldt, Imperial, Kern, Kings, Lake, Lassen, Los Angeles, Madera, Marin, Mariposa, Mendocino, Monterey, Nevada, Orange, Placer, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Shasta, Sierra, Sonoma, Stanislaus, Sutter, Trinity, Tulare, Tuolumne, Ventura, Yolo and Yuba. FATCO remits to the Company on or before the 15th day of each calendar month an amount equal to five percent (5%) of the total amount of fees for title policies issued through its offices during the preceding calendar month. The Company is liable for claims made under title policies issued by FATCO, subject to a deductible amount of $5,000 per claim, paid by FATCO.

Administrative Services Agreement: On November 22, 2006, the Company entered into an Administrative Services Agreement with Bridge Title Insurance Company (BTIC). Under the terms of this agreement, the Company provides all administrative services that support the business activities of the BTIC. The services include, but are not limited to, underwriting, premium processing, accounting, claims, and all administrative functions. BTIC reimburses the Company for the actual cost of services.

Tax Allocation Agreement: The Company and its affiliates are parties to a Tax Allocation Agreement dated December 15, 1994 with its parent, FAC. FAC files consolidated federal income tax returns and pays estimated consolidated federal income taxes due. Under the terms of the agreement, each member pays to FAC its estimated separate federal income tax liability. The allocation of federal income tax liability is based on the percentage that the separate federal tax liability bears to the sum of the tax liability for all members. The members of the group that incurred losses, or other tax benefits that have been utilized by the group to reduce consolidated federal tax liability, are compensated for the use of the benefits. Any excess of the amount paid over

the allocated liability is paid back by FAC within ninety (90) days after the due date, including extensions of the consolidated federal return.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact title insurance business in the District of Columbia and in all states except Iowa, Kansas and New York. The Company is also licensed in Canada, Guam, Hong Kong, Korea, Mexico, Puerto Rico, and U.S. Virgin Islands.

During 2007, the Company wrote $3.3 billion of direct premiums of which $622 million were produced through direct operations, $1.9 billion through non-affiliated agencies and $753 million through affiliated agencies. Of the direct premiums written, $715 million (21.6%) was written in California, $334 million (10.1%) was written in Florida, $295 million (8.9%) was written in Texas and $1.97 billion (59.4%) was written in the remaining states and jurisdictions.

The Company issues both residential and commercial title insurance policies. Title insurance policies insure the interests of owners and their lenders in the title to real property against loss by reason of adverse claims to ownership of, or defect to, liens, encumbrances or other matters affecting such title that existed at the time a policy is issued and that were not excluded from the policy coverage. The Company also provides escrow and other services to real estate property buyers and mortgage lenders.

Title policies are issued by the Company on a direct basis through affiliated underwritten title companies, and through non affiliated title agents on behalf of the Company on an indirect basis. Some underwritten title companies, and other title agents, retain from 60% to 95% of the title insurance premium when they place business with the Company. The amount of retention depends on local regulations or practices and on whether the premium is all inclusive or divided between the so-called “risk portion” of the premium and the so-called “work portion”, such as search, examination and policy preparation.

GROWTH OF COMPANY

The Company has experienced a considerable decrease in growth after the examination period as shown in the following schedule:

Year	Direct Premiums Written	Net Operating Gain or (Loss)	Net Income
2005	$ 3,925,258,681	$ 159,757,209	$246,513,902
2006	3,837,642,661	128,336,214	187,666,322
2007	3,312,366,583	(87,291,546)	12,082,433
2008	2,317,808,548	(240,884,280)	(89,354,345)

The decline in the Company's growth is attributable to the state of the title insurance industry, which is susceptible to economic cycles and financial impacts relevant to the real estate market. In the past, the Company has benefited from the boom in the real estate market with a high volume of sale transactions and refinancing activity. However, the current slowdown in the mortgage and real estate markets has negatively impacted the Company's operations. In response to market conditions, the Company has reduced its overhead by reducing its expenses and by consolidating many of its regional operations as activity in the title market declined.

LOSS EXPERIENCE

The Company reported net operating losses for 2007 and 2008 and a net loss during 2008 as follows:

Year	Net Operating Gain or (Loss)	Net Income or (Loss)	Policyholders' Surplus
2005	$ 159,757,209	$ 246,513,902	$ 877,882,146
2006	128,336,214	187,666,322	753,711,632
2007	(87,291,546)	12,082,433	(*) 426,527,245
2008	(240,884,280)	(89,354,345)	602,036,435

(*) does not include examination adjustment for decreased valuation of subsidiary

During 2008, the Company increased its reported surplus position primarily through capital contributions of $75 million and a capital contribution receivable of $100 million, as previously discussed in the "SUBSEQUENT EVENTS" section.

REINSURANCE

Assumed

The Company assumes business from subsidiaries and affiliates as well as from unaffiliated companies. In the ordinary course of business, orders for large policies are often received with the applicant directing the underwriting company to cede a portion of the risk to other insurers for specific amounts. The Company is one of the nation's largest title insurers and as a result, receives a great amount of directed reinsurance on a facultative basis. The Company also has treaty reinsurance agreements, with several companies. The treaty reinsurance agreements as of December 31, 2007 are as follows:

Subsidiaries and Affiliates:

Company	Retention
Censtar Title Insurance Company	$ 150,000
First American Title Insurance Company of Oregon	$ 5,000,000
Pacific Northwest Title Insurance Company	$ 2,000,000
T.A. Title Insurance Company	$ 500,000
United General Title Insurance Company	$ 4,000,000
Western National Title Insurance Company	$ 200,000
First American Title of Australia	$ 100,000
First Title Insurance PLC	£ 20,000
First Canadian Title Insurance Company	$ 250,000

Unaffiliated Companies:

Company	Retention
Atlantic Title Insurance Company	$ 200,000
Attorneys' Title Guaranty Fund, Inc.	$ 250,000
Commerce Title Insurance Company	$ 5,000
Conestoga Title Insurance Company	$ 350,000
Dreibelbiss Title Company Incorporated	$ 75,000
Equity National Title Insurance Company	$ 5,000
Farmers National Title Insurance Company	Depends on policy value
Guardian Title Insurance Company	$ 100,000
Investors Title Insurance Company	$ 5,000,000
Northeast Investors Title Insurance Company	$ 5,000,000
North American Title Company	$ 2,500,000
The Security Title Guarantee Corporation	$ 1,000,000
Title Resources Guaranty Company	$ 1,500,000
Westcor Land Title Insurance Company	$ 100,000

As of December 31, 2007, the Company assumed from affiliates policy liabilities totaling $92.7 billion and reinsurance premiums of $7.1 million. The Company assumed business from non-affiliates policy liabilities totaling $27.5 billion and reinsurance premiums of $6.6 million. The aggregate assumed reinsurance liability was $120.2 billion and reinsurance premiums received totaled $13.7 million.

Ceded

The Company cedes its excess risk primarily on a facultative basis. The Company does have one treaty entitled “Per Policy Commercial Title Reinsurance Agreement”, which became effective on December 1, 2006. The treaty is with HCC Reinsurance Company Limited, an unauthorized Bermuda based reinsurer.

As of December 31, 2007, the Company ceded business to affiliates of policy liabilities totaling $4.5 billion and reinsurance premiums of $6.5 million. The Company ceded business to non-affiliates of

policy liabilities totaling $66.3 billion and reinsurance premiums of $17.9 million. The aggregate ceded reinsurance liability was $70.8 billion and reinsurance premiums paid totaled $24.4 million.

ACCOUNTS AND RECORDS

This examination experienced significant difficulties obtaining supporting documentation for information reported by the Company in its filed Annual Statements. This included routine requests for confirmation of information, account reconciliations and detailed supporting reports. It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

Receivable from Parent

A review was made of the Company's receivable balance from its parent, The First American Corporation (FAC), as of December 31, 2007. Various transactions were selected to be reviewed and requests were made for supporting documentation. The Company was unable to supply much of the requested information in a timely fashion. This account is used by FAC and the Company as a "hub" to track various transactions of other affiliates of the Company. Many types of transactions are processed in this account such as: dividends, interest on notes, quarterly tax payments for the whole First American Group and affiliated loans. The Company does not have a service or cost allocation agreement with the majority of the affiliated entities. It is recommended that the Company prepare and submit an agreement, which includes all affiliates that the Company has dealings with, to the California Department of Insurance (CDI) in order to comply with California Insurance Code (CIC) Section 1215.5. It is also recommended that in the future the Company seek prior approval from the CDI for extraordinary affiliated transactions such as items exceeding threshold limitations, and transactions not in the ordinary course of business, as defined by CIC Section 1215.5.

Escrow Accounts

A review was made of the Company's escrow accounts as of December 31, 2007. Escrow information was requested from the regional branches located in Tallahassee, Florida and Phoenix, Arizona. The Company was unable to supply much of the requested information in a timely fashion. In addition, supporting documentation received did not always match the Company's records.

It is recommended that the Company implement procedures to ensure that escrow balances are properly supported and that the records are easily attainable for review.

Custodial Agreement

The current custodian for the Company is First American Trust, FSB. First American Trust, FSB is not a qualified custodian pursuant to the requirements of CIC Section 1104.9. It is recommended that the Company comply with CIC Section 1104.9 by utilizing a qualified custodian for its securities.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include examination adjustments made upon the valuation of the Company's subsidiary, United General Title Insurance Company (UGT), as the result of subsequent developments to UGT's loss and loss adjustment expense reserves occurring during 2008, and such statements include the following:

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 December 31, 2004 through December 31, 2007

Reconciliation of Examination Changes as of December 31, 2007

Consistent with *Statement of Statutory Accounting Principles No. 3, Change in Accounting Estimate*, adjustment and/or restatement of prior Annual Statements, Financial Statements, or other financial information, is not proposed, required or implied. As previously mentioned in the SUBSEQUENT EVENTS section, United General Title Insurance Company transferred all its business in force and the assets and liabilities associated therewith to the Company.

Statement of Financial Condition
as of December 31, 2007

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 40,588,983	$	$ 40,588,983	
Stocks:				
Preferred stocks	58,429,035	17,037,971	41,391,064	
Common stocks	582,073,258	28,383,939	553,689,319	(1)
Mortgage loans on real estate: First liens	36,090,574		36,090,574	(2)
Real estate:				
Properties occupied by the company	110,401,721		110,401,721	(3)
Properties held for sale	2,795,175		2,795,175	(3)
Cash and short-term investments	295,870,894		295,870,894	
Other invested assets	521,104,074	340,252,255	180,851,819	
Title plants	81,194,688		81,194,688	
Investment income due and accrued	836,169		836,169	
Premiums and considerations:				
Premiums and agents' balances in course of collection	68,110,639	11,184,509	56,926,130	
Net deferred tax asset	202,028,682	172,928,501	29,100,181	
Electronic data processing equipment and software	2,611,313	2,611,313		
Furniture and equipment	19,732,670	19,732,670		
Receivables from parent, subsidiaries and affiliates	654,563,174	298,901,761	355,661,413	(4)
Aggregate write-ins for other than invested assets	277,049,010	217,550,524	59,498,486	
Total assets	$2,953,480,059	$1,108,583,443	$1,844,896,616	

Liabilities, Surplus and Other Funds			
Known claims reserve		$ 140,517,390	(5)
Statutory premium reserve		847,535,313	(5)
Supplemental reserve		103,885,000	(5)
Other expenses		214,383,183	
Taxes, licenses and fees		16,582,113	
Current federal and foreign income taxes		1,057,329	
Premiums and other consideration received in advance		12,121,506	
Amounts withheld or retained by company for others		2,586,301	
Payable to parent, subsidiaries and affiliates		72,009,520	
Aggregate write-ins for liabilities		36,075,657	
Total liabilities		1,446,753,312	
Common capital stock	$ 200,000,000		
Unassigned funds (surplus)	198,143,304		
Surplus as regards policyholders		398,143,304	
Total liabilities, surplus and other funds		$1,844,896,616	

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

Statement of Income

Operating Income		
Title insurance premiums earned	$ 3,249,306,457	
Escrow and settlement services	195,150,870	
Other title fees and service charges	186,383,830	
Total operating income		$ 3,630,841,157
Deductions:		
Losses and loss adjustment expenses incurred	$ 374,613,626	
Operating expenses incurred	3,343,519,077	
Total operating deductions		3,718,132,703
Net operating loss		(87,291,546)
Investment Income		
Net investment income earned	$ 195,715,802	
Net realized capital losses	(56,889,509)	
Net investment gain		138,826,293
Other Income		
Net income before all other federal income taxes		51,534,747
Federal income taxes incurred		39,452,314
Net income		$ 12,082,433

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		$ 753,711,632
Net income	$ 12,082,433	
Change in net unrealized capital gains	(19,177,275)	
Change in net unrealized foreign exchange capital gain	1,289,403	
Change in net deferred income tax	82,599,773	
Change in nonadmitted assets	(272,934,998)	
Change in supplemental reserves	(103,885,000)	
Dividends to stockholders	(35,000,000)	
Aggregate write-ins for gains and losses in surplus	(20,542,664)	
Change in surplus as regards policyholders		(355,568,328)
Surplus as regards policyholders, December 31, 2007		$ 398,143,304

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

Surplus as regards policyholders, December 31, 2004, per Examination			$ 746,045,466
	Gain in Surplus	Loss in Surplus	
Net income	$ 446,262,657	$	
Net unrealized capital losses		323,671,324	
Net unrealized foreign exchange capital gains	6,858,169		
Change in net deferred income tax	104,489,848		
Change in nonadmitted assets		429,656,559	
Change in supplemental reserves		103,885,000	
Dividends to stockholders		35,000,000	
Aggregate write-ins for losses in surplus		13,299,953	
Totals	$ 557,610,674	$905,512,836	
Net decrease in surplus as regards policyholders			(347,902,162)
Surplus as regards policyholders, December 31, 2007, per Examination			$ 398,143,304

Reconciliation of Examination Changes
as of December 31, 2007

Assets	Per Company	Per Examination	Surplus Increase (Decrease)	Notes
Stocks:				
Common stocks	$ 582,073,258	$ 553,689,319	$ (28,383,939)	(1)
Net decrease to surplus as regards policyholders			(28,383,939)	
Surplus as Regards Policyholders, December 31, 2007 per Company			426,527,243	
Surplus as Regards Policyholders, December 31, 2007 per Examination			$ 398,143,304	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Stocks: Common Stocks

The Company did not file for prior approval with the California Department of Insurance (CDI), as required by California Insurance Code (CIC) Section 1215.5(b), for the contribution of 100% of United General Title Insurance Company (UGT) during 2005 and for the acquisition of 100% of Transcontinental Title Company during 2006. In regards to the 2006 acquisition of Transcontinental Title Company, the Company was also in violation of CIC Section 1198 in that the transaction exceeded 10% of capital and surplus of the Company.

On August 15, 2007, the Company formed FATCO Holdings, LLC (FATCO LLC). The Company is not in compliance with the CIC Section 1215.5(b)(1) in that it did not submit its investment in an affiliated limited liability corporation, FATCO LLC, to the CDI for prior approval.

It is recommended that the Company comply with CIC Sections 1198, 1215.5(b), and 1215.5(b)(1).

The Company's common stock investment in its subsidiary, UGT, was revalued from $28.4 million to $0. This adjustment was based on the review performed by the California Department of Insurance (CDI) actuary of the UGT adverse loss development that occurred during 2008 related to 2007 and prior policy years. As previously discussed, UGT and the Company entered into an Instrument of Transfer and Assumption in 2008 to transfer all UGT liabilities to the Company.

(2) Mortgage Loans on Real Estate

The Company does not regularly analyze its mortgage loans to determine and record impairments on non performing loans. It is recommended that the Company comply with Statutory Statement of Accounting Principles (SSAP) No. 37, paragraph 16 and record a valuation allowance with a corresponding unrealized loss where applicable.

(3) Real Estate

The Company does not regularly obtain appraisals on its real estate holdings as required by SSAP No. 40, paragraphs 11 and 12. It is recommended that the Company comply with SSAP No. 40 and maintain appraisals that are no more than five years old.

(4) Receivables from Parent, Subsidiaries and Affiliates

The Company has admitted receivables from its parent, The First American Corporation (FAC), as well as other affiliates. Several affiliates of the Company have balances within this account, but are not a party to the Company's cost allocation agreements.

During the examination period, the Company was not able to collect many of these receivables on a timely basis. By not collecting on a timely basis, these receivables effectively become an interest free loan to FAC and other affiliates. It is recommended that the Company settle balances with its parent and affiliates on a timely basis.

Subsequent to the examination date, FAC paid the majority of the balance due to the Company. However, the payments were not all in cash. FAC paid a total of $315 million to the Company through July 3, 2008. Of the total payments FAC used promissory notes of $135 million, marketable securities of $13.7 million, and $166.3 million in cash.

(5) Known claims reserve
Statutory premium reserve
Supplemental reserve

The Company obtained an actuarial opinion from its consulting actuary, Milliman, Inc., attesting to the adequacy of its loss reserves as of December 31, 2007. This report was reviewed by a Casualty Actuary from the CDI and based on the review the Company's reserves were accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings (Page 2): This examination noted a reduction of the Company's surplus as regards policyholders due to the decrease in the admitted value of the Company's common stock investment in its subsidiary, United General Title Insurance Company.

Management and Control – Management Agreements: Cost Allocation Agreement (Page 10): The agreement does not specify a specific due date as required by the Statement of Statutory Accounting Principles (SSAP) No. 96. In addition, many affiliates of the Company who are not party to the agreement are running their transactions through the Company's inter company accounts. It is recommended that the Company revise this agreement and submit it to the California Department of Insurance (CDI) for approval.

Accounts and Records (Page 16): It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

Accounts and Records – Receivable from Parent (Page 16): It is recommended that the Company prepare and submit an agreement, which includes all affiliates that the Company has dealings with, to the CDI in order to conform with California Insurance Code (CIC) Section 1215.5. It is also recommended, that in the future the Company seek prior approval from the CDI for extraordinary affiliated transactions as defined by CIC Section 1215.5.

Accounts and Records – Escrow Accounts (Page 17): It is recommended that the Company implement procedures to ensure that escrow balances are properly supported and that the records are easily attainable for review.

Accounts and Records – Custodial Agreement (Page 17): It is recommended that the Company comply with CIC Section 1104.9 by utilizing a qualified custodian for its securities.

Comments on Financial Statement Items – Stocks: Common Stocks (Page 23): It is recommended that the Company comply with CIC Sections 1198, 1215.5(b), and 1215(b)(1) and file material transactions with the CDI.

Comments on Financial Statement Items – Mortgage Loans on Real Estate (Page 23): It is recommended that the Company comply with SSAP No. 37, paragraph 16 and record a valuation allowance with a corresponding unrealized loss where applicable.

Comments on Financial Statement Items – Real Estate (Page 24): It is recommended that the Company comply with SSAP No. 40 and obtain appraisals on its real estate holdings at least every five years.

Comments on Financial Statement Items – Receivables from Parent, Subsidiaries and Affiliates (Page 24): It is recommended Company settle balances with its parent and affiliates on a timely basis.

Previous Report of Examination

Accounts and Records – Escrow Accounts (Page 13): It was recommended that the Company resolve all outstanding escrow balances prior to closing escrow accounts and escheating undisbursed escrow funds as unclaimed property in accordance with the requirements of each state. The Company has not complied with the recommendation.

Accounts and Records – Custodial Agreement (Page 13): It was recommended that the Company comply with California Insurance Code (CIC) Section 1104.9(a)(1). The Company has not complied with the recommendation.

Comments on Financial Statements - Mortgage Loans on Real Estate (Page 18): It was recommended that the Company comply with CIC Section 1100. The Company has complied with the recommendation.

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/_____
Gregory J. Lieber, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

_____/S/_____
Christopher R. Bechtel, CFE
Insurance Examiner
Department of Insurance
State of Delaware
Representing Zone I-Northeastern