

REPORT OF EXAMINATION
OF THE
NORTH AMERICAN TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2017

FILED ON JUNE 3, 2019

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY	2
MANAGEMENT AND CONTROL:.....	3
Management Agreements.....	4
TERRITORY AND PLAN OF OPERATION.....	5
REINSURANCE:	5
Assumed.....	5
Ceded	6
FINANCIAL STATEMENTS:	7
Statement of Financial Condition as of December 31, 2017	8
Underwriting and Investment Exhibit for the Year Ended December 31, 2017	9
Reconciliation of Surplus as Regards Policyholders from December 31, 2013 through December 31, 2017	10
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	11
Known Claims Reserve and Statutory Premium Reserve.....	11
SUBSEQUENT EVENTS	11
Ownership Change	11
Master Services Agreement.....	12
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	12
Current Report of Examination	12
Previous Report of Examination	12
ACKNOWLEDGMENT	13

San Francisco, California
May 21, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

NORTH AMERICAN TITLE INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 1855 Gateway Boulevard, Suite 600, Concord, California 94520.

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, 2013. This examination covers the period from January 1, 2014 through December 31, 2017.

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. The 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 includes 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 of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There may 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 the Company.

COMPANY HISTORY

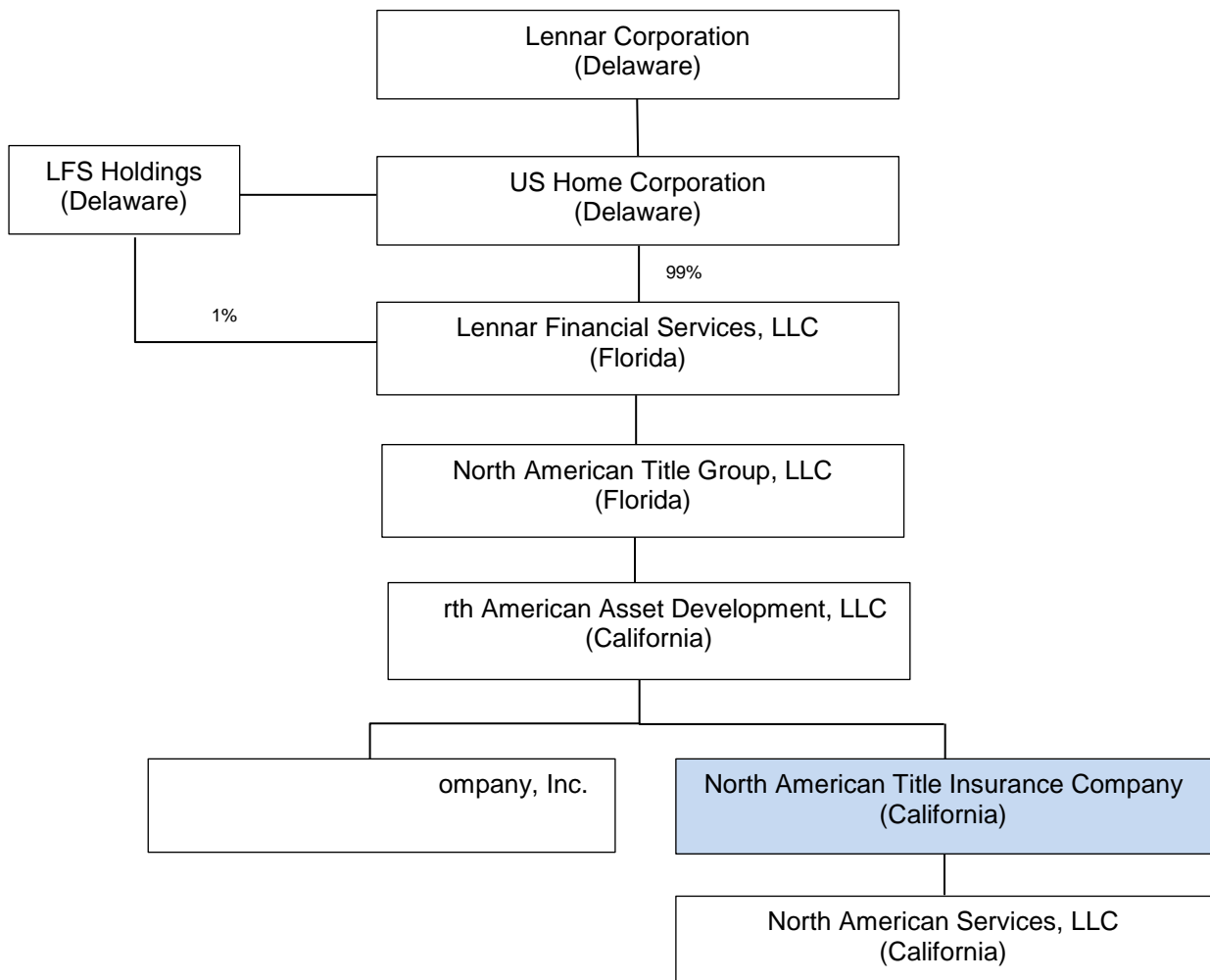
The Company is authorized to issue 1,000,000 shares of common stock with a par value of \$10 per share. As of December 31, 2017, there were 270,000 shares issued and outstanding.

During the exam period, the Company paid an ordinary cash dividend of \$5.2 million to its parent, North American Asset Development, LLC (NAAD) in 2014.

On September 12, 2018, the Company paid an extraordinary dividend of \$59.6 million to NAAD in cash and securities of \$20.9 million and \$38.7 million, respectively. The California Department of Insurance approved this transaction on September 10, 2018 pursuant to California Insurance Code Section 1215.5(g).

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which the ultimate controlling entity is Lennar Corporation (Lennar), a Delaware public company whose principal business involves home building. The following abridged organizational chart is limited to the Company's interrelationship with certain entities within the holding company system and does not depict all entities under Lennar (all ownership is 100% unless otherwise indicated):



A three-member Board of Directors, elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Emilio Fernandez Miami, Florida	President North American Title Insurance Company
Thomas J. Fischer Miami, Florida	President North American Title Group, LLC
Clotilde C. Keller Miami, Florida	Chief Financial Officer North American Title Group, LLC

Principal Officers

<u>Name</u>	<u>Position</u>
Emilio Fernandez	President
Jefferson E. Howeth	Secretary
Donnis L. Benson	Treasurer

Management Agreements

Master Services Agreement: Effective January 1, 2006, the Company entered into the agreement between and among North American Services, LLC (NAS), North American Title Group, LLC (NATG), and certain subsidiary corporations or majority owned entities of NATG. Under the terms of the agreement, NAS is responsible for providing the following services: employment, payroll, general administrative, benefits administration, management reporting, administrative support, information technology support, and personnel services on behalf of the participating companies. During the examination period, the Company incurred net expenses of \$14,459, \$11,238, \$16,813, and \$16,677

in 2014, 2015, 2016, and 2017, respectively. The agreement was approved by the California Department of Insurance (CDI) on November 9, 2005.

Tax Sharing Agreement: Effective December 1, 2009, the Company is a party to the tax sharing agreement with its ultimate parent, Lennar Corporation (Lennar) and other affiliates, in which Lennar files a consolidated federal income tax return on behalf of its subsidiaries. The agreement was approved by the CDI on May 14, 2010.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company is licensed to transact title insurance business in thirty-nine states and the District of Columbia. Direct premiums written during 2017 totaled \$247.4 million. The majority of the Company's business was written in California (42.2%), Texas (14.4%), Florida (10.4%), with the remaining 33.0% written in all other states where the Company is licensed.

Business is written through affiliated agents and independent agents. Of the \$247.4 million direct written premiums, \$127.9 million (51.7%) and \$119.5 million (48.3%) were written by non-affiliated agencies and affiliated agencies, respectively. The Company's home office is located in Concord, California. Most of the officers who manage the day-to-day operations of the Company and accounting functions are located in Miami, Florida.

REINSURANCE

Assumed

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

Ceded

Treaty Reinsurance Agreement: The Company entered into this agreement with First American Title Insurance Company (FATIC) effective October 14, 2013 with an automatic yearly renewal unless terminated in writing. Effective April 18, 2016, FATIC assumed policy liability in excess of the Company's retention of \$15 million, up to a maximum of \$25 million. On January 10, 2019, FATIC notified the Company its intent to terminate the agreement effective April 10, 2019. Under the terms of the agreement, if more than forty-nine percent of the Company's ownership interests are transferred without FATIC's written consent, such transfer is deemed a material breach of the agreement, and FATIC has the right to issue a termination notice. The reinsurance agreement with FATIC was terminated because States Title Holdings, Inc. completed the acquisition of the Company on January 7, 2019.

Facultative Reinsurance Agreement: Effective September 1, 2017, the Company and Fidelis Underwriting UK Limited (Fidelis) entered into this agreement whereby the Company automatically cedes any one policy liability in excess of its \$15 million retention, up to a maximum of \$30 million. Liabilities in excess of \$30 million up to \$500 million are accepted with prior approval by Fidelis.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2017. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2013
through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 82,543,191	\$	\$ 82,543,191	
Preferred stocks	18,413,235		18,413,235	
Common stocks	3,921,377		3,921,377	
Mortgage loans on real estate:				
First liens	8,632,746		8,632,746	
Cash, cash equivalents, and short-term investments	18,707,651		18,707,651	
Other invested assets	917,500		917,500	
Title plants	1,911,619	561,619	1,350,000	
Investment income due and accrued	853,728		853,728	
Uncollected premiums and agents' balances in the course of collection	2,775,099		2,775,099	
Net deferred tax asset	778,257	563,442	214,815	
Electronic data processing equipment and software	106,081	106,081		
Furniture and equipment	21,068	21,068		
Receivables from parent, subsidiaries and affiliates	399,507		399,507	
Aggregate write-ins for other than invested assets	<u>407,858</u>	<u>288,367</u>	<u>119,491</u>	
 Total assets	 <u>\$ 140,388,917</u>	 <u>\$ 1,540,577</u>	 <u>\$ 138,848,340</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Known claims reserve			\$ 4,760,652	(1)
Statutory premium reserve			47,187,011	(1)
Other expenses			2,567,478	
Taxes, licenses and fees			1,311,010	
Current federal and foreign income taxes			<u>635,440</u>	
 Total liabilities			 56,461,591	
Common capital stock		\$ 2,700,000		
Gross paid-in and contributed surplus		11,771,391		
Unassigned funds (surplus)		<u>67,915,358</u>		
 Surplus as regards policyholders			 <u>82,386,749</u>	
 Total liabilities, surplus and other funds			 <u>\$ 138,848,340</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Operating Income

Title insurance premiums earned		\$ 241,722,680
---------------------------------	--	----------------

Expenses

Losses and loss adjustment expenses incurred	\$ 7,344,055	
Operating expenses incurred	<u>226,493,313</u>	
Total Operating Expenses		<u>233,837,368</u>

Net operating gain		7,885,312
--------------------	--	-----------

Investment Income

Net investment income earned	\$ <u>4,395,621</u>	
Net investment gain		4,395,621

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>497,001</u>	
Total other income		<u>497,001</u>

Net income after capital gains tax and before all other federal income taxes		12,777,934
Federal and foreign income taxes incurred		<u>4,219,256</u>
Net income		<u>\$ 8,558,678</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 73,999,731
Net income	\$ 8,558,678	
Change in net deferred income tax	(83,345)	
Change in nonadmitted assets	(217,025)	
Aggregate write-ins for gains in surplus	<u>128,710</u>	
Change in surplus as regards policyholders for the year		<u>8,387,018</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 82,386,749</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2017

Surplus as regards policyholders, December 31, 2013, per Examination			\$ 52,558,993
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 29,285,403	\$	
Change in deferred income tax	219,794		
Change in nonadmitted assets		497,966	
Dividends to stockholders		5,200,000	
Surplus paid in	6,000,000		
Aggregate write-ins for gains in surplus	<u>20,525</u>		
Total gains and losses	<u>\$ 35,525,722</u>	<u>\$ 5,697,966</u>	
Net increase in surplus as regards policyholders			<u>29,827,756</u>
Surplus as regards policyholders, December 31, 2017, per Examination			<u>\$ 82,386,749</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Known Claims Reserve and Statutory Premium Reserve

A Casualty Actuary from the California Department of Insurance reviewed the Company's carried total Schedule P reserves and determined that they were reasonable. Additionally, it was determined that no supplemental reserve was necessary as the Company's known claims reserve of \$4,760,652 plus its statutory premium reserve of \$47,187,011 exceeded the total Schedule P reserves of \$51,367,000.

SUBSEQUENT EVENTS

Ownership Change

On December 20, 2018, the California Department of Insurance (CDI) approved the acquisition of the Company by States Title, Inc. (STI), a Delaware corporation, pursuant to California Insurance Code (CIC) Section 1215.2. As part of the acquisition, North American Title Group, LLC (NATG) and STI entered into a Transaction Agreement (Transaction) on September 28, 2018, in which NATG acquired 20% of States Title Holding, Inc. (STH), a new holding company created to consummate the Transaction. In addition, NATG loaned \$87 million and contributed certain retail title business to Agency Business Holdco (ABH). After the acquisition, STI's shareholders own 80% of STH, and STH indirectly owns 100% of ABH. On January 7, 2019, the acquisition was completed and the Company became a wholly owned subsidiary of STH. The Company is also an affiliate of STI, who wholly owns States Title Insurance Company of California (STICOC) and State Title Insurance Company (STIC). The Company, STICOC, and STIC are members of STH insurance holding company system.

Master Services Agreement

Effective January 7, 2019, the Company, North American Services, LLC (NAS), States Title Agency Inc. (STA), and certain affiliates of States Title Holdings, Inc. entered into a Master Services Agreement. Under the terms of the agreement, NAS and STA provide employment, payroll, general administrative, benefits administration, management reporting, administrative support, information technology support, and personnel services to the Company. The California Department of Insurance approved the agreement on March 5, 2019 pursuant to CIC Section 1215.5(b)(4).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Comments on Financial Statement Items – Bonds (Page 10): It was recommended that the Company improve the monitoring of its investment securities to ensure that the designation assigned to the securities properly reflects their current rating at the valuation date. The Company has complied with the recommendation.

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,

_____/S/_____
Li Lim, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

_____/S/_____
Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California